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ABSTRACT

This handbook explains the policies and procedures required for institutions of higher education to properly administer federally funded student financial assistance programs. Three major sections cover student eligibility, institutional eligibility and participation, and state grant programs. The student eligibility section includes chapters on school-based requirements; citizenship; financial aid history; correct social security number; selective service; the application; expected family contribution; verification; corrections, updates, and adjustments; and financial need and packaging. The second section, on institutional eligibility, has chapters on institutional and program eligibility, general participation requirements, administrative capability, financial responsibility, cash management, withdrawals (refunds), consumer information, recordkeeping and disclosure, agreements between schools, applying for and maintaining participation in the student financial aid programs, program integrity, and distance education. The final section is a reference to state-administered grant programs. Chapters discuss the Leveraging Educational Assistance Partnership (LEAP) Program, the Robert C. Byrd Honors Scholarship Program, and the Paul Douglas Teacher Scholarship Program. (DB)

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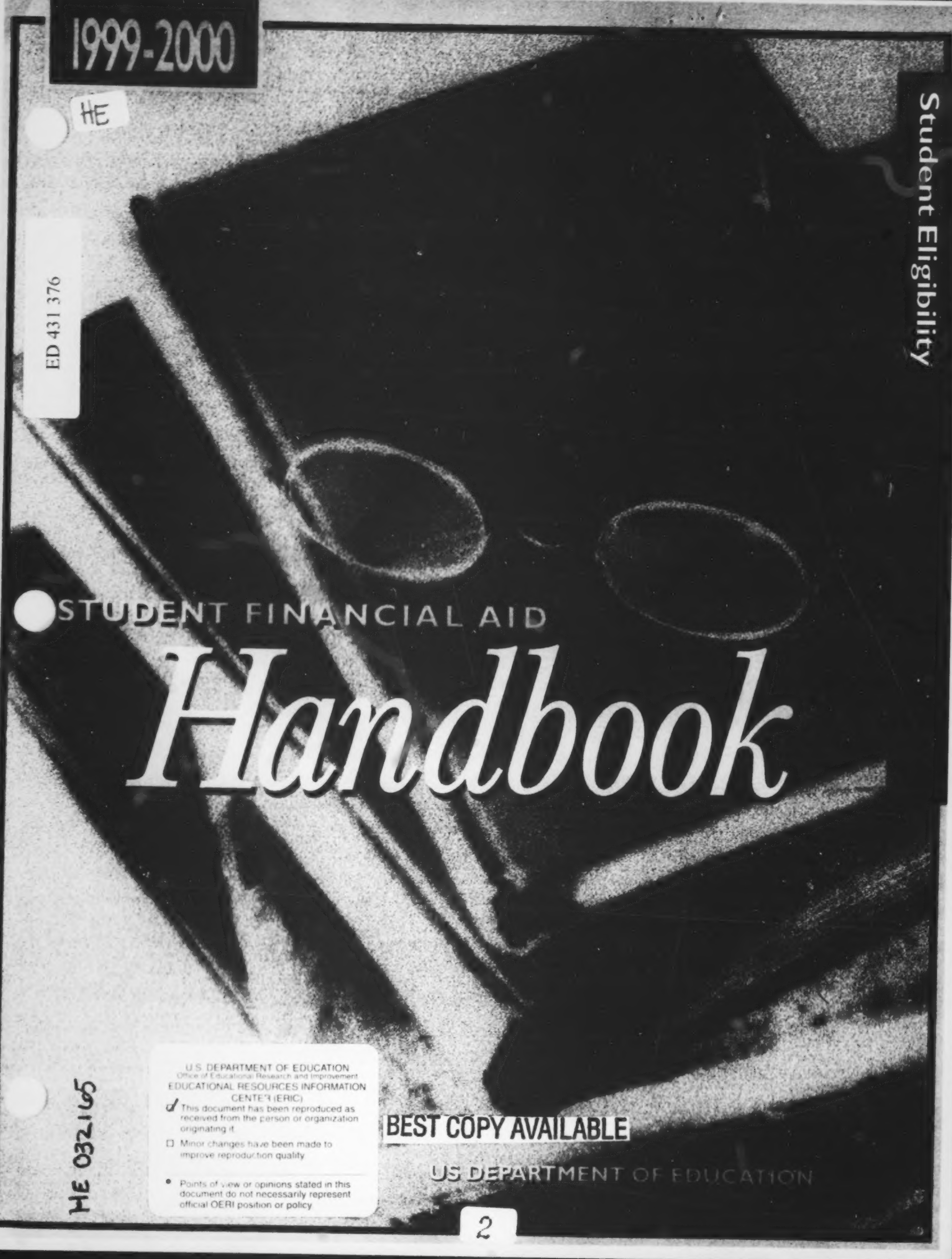

1999-2000

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ED 431 376

Student Eligibility

STUDENT FINANCIAL AID

Handbook

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Office of Educational Research and Improvement
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US DEPARTMENT OF EDUCATION

HE 032165

UNITED STATES DEPARTMENT OF EDUCATION
THE OFFICE OF STUDENT FINANCIAL ASSISTANCE
WASHINGTON, D.C. 20202-5132

June 1999

Summary: Cover letter for the two core sections and one program reference of the *1999-2000 SFA Handbook*.

Dear Colleague:

We are pleased to enclose the two "core" sections and the *State Grant Programs Reference* of the *1999-2000 Student Financial Aid Handbook*. The remaining three program-specific sections of the *SFA Handbook* will follow as soon as each is completed. These sections are the *Campus-Based Programs Reference*, the *Federal Pell Grant Program Reference*, and the *Direct Loan and FFEL Programs Reference*. Please note that we will mail the *Campus-Based Programs Reference* only to those schools that participate in the Campus-Based Programs.

- *Student Eligibility*: This core section contains the information traditionally found in Chapter 2 of the *Handbook* and now also includes material that in previous years was published in *The Verification Guide*, the *EFC Formula Book*, and the *Counselor's Handbook for Postsecondary Schools*. We will no longer issue these publications separately.

- *Institutional Eligibility and Participation*: This core section contains, as traditionally found in Chapter 3 of the *Handbook*, numerous subsections covering eligibility, cash management, general participation, recordkeeping and disclosure, student consumer information, participation requirements, etc.

- The *State Grant Programs Reference* contains information on the Leveraging Educational Assistance Partnership (LEAP) Program, the Robert C. Byrd Honors Scholarship Program, and the Paul Douglas Teacher Scholarship Program.

We based our reconfiguration of the 1999-2000 SFA Handbook on what we learned from you in focus groups. For example, we learned that schools that do not participate in campus-based programs did not particularly wish to receive the campus-based chapters of the Handbook. And we learned that schools wanted a one-stop information resource rather than multiple publications. We would like to hear your comments on the new structure of the Handbook and as always, we seek your suggestions for improvements. You can e-mail us at CSB@ed.gov (please put "Handbook Comments" in the "Subject" line of your message) or you can write to us at:

Development Section
U.S. Department of Education
ROB-3, Room 3013
7th and D Streets, SW
Washington, DC 20202

The enclosed Handbook sections are also available on the Information for Financial Aid Professionals (IFAP) web site (http://ifap.ed.gov). As the other program references (Pell, Campus-Based programs, and Direct Loan/FFEL) become available, they will also be posted on IFAP and distributed in paper format.

Sincerely,

William J. Ryan
Director
Training and Program Information Division
Policy, Training, and Analysis Service

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Introduction

i

This publication is designed to help financial aid administrators determine whether a particular student is eligible for aid from the Department's student financial assistance (SFA) programs (also known as the Title IV programs).

SOURCES OF INFORMATION

In determining a student's eligibility, there are many factors that the school must consider, such as whether the student is a citizen, whether the student is making satisfactory academic progress, and whether the student has a defaulted SFA loan. To answer these questions, schools receive information about the student from several different sources, including the Department of Education; one of the major sources of information from the Department is the application system. The aid administrator is responsible for sorting through all the information and determining whether the student can receive SFA funds. This publication provides information about the eligibility rules and the application system.

Throughout the year, the Department provides updates to schools in the form of Dear Colleague Letters and Action Letters. These letters, as well as other information from the Department, such as Federal Register notices, are available on the Information for Financial Aid Professionals (IFAP) web site at <http://ifap.ed.gov>. The Department also posts system updates and technical guidance announcements on the IFAP site.

Schools using software from the Department also receive desk references and other materials that explain how the software operates. Therefore, this publication doesn't cover the operation of specific pieces of software. Schools using third party software should consult the reference materials they receive from the software vendor.

CONFLICTING INFORMATION

In addition to reviewing information provided by the Department's application system, a school must have its own systems to handle other data and decisions, such as information about the student's academic progress. The school must also have systems in place to discover conflicting information in its files and to resolve such conflicts. The regulations require a school to develop an adequate system to ensure the consistency of any information related to a

Conflicting Information Cite
34 CFR 668.16(f)

Gaining Eligibility Examples

Allen enrolls in a one-year certificate program at Sarven Technical Institute. Sarven won't officially admit Allen before he provides an academic transcript from his previous school, but it admits him conditionally so he can start classes in the fall. Sarven receives Allen's transcript after he's attended for a month, and officially admits him. He's still in his first payment period when admitted, and so can receive Pell and campus-based funds for his entire enrollment. The school can also use the entire year for his period of enrollment for a loan, so that Allen can receive loan funds for his entire enrollment.

Chavo is finishing his senior year in high school. He decides to start classes in the winter at Sarven Technical Institute on January 11. His high school classes end on the following June 4. He starts his second payment period at Sarven on May 17. Chavo isn't eligible for aid when he first starts classes at Sarven. However, when Chavo becomes eligible, after June 4, Sarven can disburse funds to Chavo retroactively for the second payment period that started on May 17. It can't disburse Pell and campus-based funds for the payment period that started in January, because he didn't become eligible until after that payment period ended. Sarven can also give Chavo a Direct Loan or FFEL for his entire enrollment, starting in January, because it's all part of the same academic year, and so can be one period of enrollment.

Citizenship Example

Hector is attending Guerrero University as a graduate student. When he first begins the academic year in September, he has applied for permanent residence status but isn't yet a permanent resident. He finally becomes a permanent resident in April, while he is still enrolled. Guerrero can award Hector campus-based funds for the entire year, not just for the second semester (payment period). It can also give him a Direct Loan for the entire period of enrollment, which in this case is the academic year starting in September. He can receive the maximum loan amount for the entire year in April, because he is treated as if he was an eligible noncitizen for the entire year.

OIG Address and Phone Numbers

Inspector General's Hotline
Office of Inspector General
U.S. Department of Education
600 Independence Avenue, SW
Washington, DC 20202-1510

1-800-MIS-USED
http://www.vais.net/~edoig/

City/State	*Telephone No.*
Boston, MA	(617) 223-9301
New York, NY	(212) 264-4104
Philadelphia, PA	(215) 596-6900
Atlanta, GA	(404) 562-6460
Chicago, IL	(312) 886-8787
Dallas, TX	(214) 880-3031
Kansas City, MO	(816) 880-4034
Long Beach, CA	(562) 980-4141
Seattle, WA	(206) 553-7616
San Juan, PR	(787) 766-6292
Washington, DC	(202) 205-5770

student's application for federal student aid, regardless of the source of that information. The school is responsible for reconciling all information received, with one exception: If the student dies during the award year, the school isn't required to resolve conflicting information.

If the school has conflicting information for a student or has any reason to believe his or her application information is incorrect, it **must** resolve such discrepancies before disbursing SFA funds. If the school discovers discrepancies after disbursing SFA funds, it must reconcile the conflicting information and require the student to repay any aid for which he or she wasn't eligible, unless the student is no longer enrolled for the award year.

REFERRAL OF FRAUD CASES

If a school suspects that a student, employee, or other individual has misreported information and/or altered documentation to increase his or her student aid eligibility or to fraudulently obtain federal funds, it should report its suspicions (and provide any evidence) to the Office of Inspector General (OIG) or to local law enforcement officials (see the OIG address and numbers above.)

CHANGE IN STATUS

In some cases, the student's eligibility status can change during the award year. These changes almost always affect whether the student can be paid. We'll discuss what happens when the student gains

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eligibility or loses eligibility, along with special rules for changes in satisfactory academic progress status.

Gaining Eligibility

In general, if a change in the student's status causes the student to gain eligibility, the student may receive aid for the entire payment period (for Pell and campus-based funds) or period of enrollment (for Direct Loans and FFELs) in which he or she became eligible. A period of enrollment is an academic unit, such as an academic term or a full academic year, but can't include periods that are part of a previous academic year. If a period of enrollment begins in one academic year and ends in the following academic year and the borrower regains eligibility during the second academic year, the school may award a loan only for that portion of the period of enrollment that's part of the second academic year.

For three of the requirements, citizenship, valid Social Security Number (SSN), and Selective Service registration, the student is eligible for Pell and campus-based aid for the entire award year in which he or she became eligible, not just the payment period.

Losing Eligibility

In general, a student who loses eligibility can't receive any disbursements after he or she lost eligibility. The one exception is if the student's citizenship status changes. A school is only required to check a student's citizenship status once during the award year or period of enrollment, when it first disburses aid. If a student later loses eligibility due to a change in citizenship status during that award year or period of enrollment, the school doesn't need to take any action to prevent the student from receiving subsequent disbursements. Of course, the student wouldn't be able to receive aid in the following award year or period of enrollment.

Satisfactory Academic Progress

If a student loses SFA eligibility because he or she is determined not to be making satisfactory progress, that student will regain eligibility when the school determines that he or she is again meeting its satisfactory progress standards. A student may be paid Pell and campus-based funds for the payment period in which he or she regains satisfactory progress but cannot be paid for any payment period in which the standards were not met. (The school must document each case.)

For Direct Loans and FFELs, a student who regains eligibility during a period of enrollment is eligible for the entire period of enrollment (usually an academic year) in which he or she met the satisfactory academic progress standards—unless school policy provides for reinstatement of eligibility at a later point.

Appeals

A student may also regain eligibility by successfully appealing a determination that he or she wasn't making satisfactory progress. The student is only eligible for the payment period or period of enrollment

SSN Example

Sioned starts at Lem Community College in July 1999. She doesn't have an SSN at that time, and doesn't apply for one until the spring of the next year. Her first academic year ends in March 2000, and she starts a second academic year in April. She gets a valid SSN in May. She can receive a Direct Loan or FFEL loan for the second academic year that began in April, but can't receive loans for the first academic year (July-March) because she didn't become eligible until that year was over. In addition, Lem considers the payment period that Sioned begins in April to be part of the 2000-2001 award year. Sioned can receive funds for that payment period, but not for the previous payment periods, because those belong to a separate award year, in which she was not eligible.

Losing Eligibility Example

George is a student at Guerrero University. He has an old Stafford Loan which is in repayment, and he hasn't had it deferred while he's in school. During the fall semester, the loan defaults. Guerrero gave George his second Direct Subsidized Loan disbursement at the beginning of the semester in September, but was going to disburse a Perkins Loan to him in October. Because his old loan goes into default at the end of September, Guerrero can't disburse the Perkins Loan for that term. George doesn't have to pay back the first disbursement of his Direct Subsidized Loan, but can't receive any more disbursements for that loan.

Change in Satisfactory Progress Status Example 1

At the end of his first year at Edison College, Andrew is not making satisfactory progress. Therefore, when the school determines his eligibility for the next payment period in the fall, Andrew isn't eligible for aid. At the end of the fall term, Edison determines that Andrew has regained satisfactory progress by completing enough credits in the term. Andrew can receive Pell and campus-based funds for the spring term. He can't receive aid for the fall term, because he didn't meet the satisfactory progress standards until the term was over.

in which that decision is made; eligibility is not retroactive to all earlier payment periods or periods of enrollments. Thus, if the school originally determined for the fall payment period that the student wasn't making satisfactory progress, the student can't receive payment for the fall payment period if the school approves his or her appeal after the fall payment period is over.

ELECTRONIC REQUIREMENTS

In order to make it easier for both the Department and schools to handle the large amounts of information, the Department now requires schools to participate in certain processes electronically, rather than maintaining a manual paper process. On September 19, 1997, the Department published the first notice listing the electronic processes the school must participate in. Although the Department provides software for most of these processes, schools aren't required to use the Department's software. Schools may develop their own software, use third-party software, or may use a third-party servicer to meet the requirements. The electronic requirements are discussed in more detail in the *SFA Handbook: Institutional Eligibility and Participation*.

Some of the processes are especially relevant for determining the student's eligibility. As of January 1, 1998, schools were required to

- be able to receive Institutional Student Information Records (ISIRs) electronically (see "Output Documents," page 7),
- to add their school code to the CPS record if they receive a Student Aid Report (SAR) not listing their school (see Chapter 9 of this publication for information on adding a school), and
- to have direct online access to the National Student Loan Data System (NSLDS) (see Chapter 3 of this publication).

As of January 1, 1999, schools must be able to use Windows 95 or later or Windows NT to process data from the Department, including data received as part of the application process.

OVERVIEW OF THE APPLICATION SYSTEM

To be considered for SFA aid, a student must complete a Free Application for Federal Student Aid (FAFSA). On the FAFSA, the Department collects financial and other information used to calculate the Expected Family Contribution (EFC) and perform eligibility matches. There are several different types of FAFSA, both paper and electronic.

Types of Applications

Students can apply electronically through their schools (Electronic Data Exchange), on the Web (FAFSA on the Web), or using a computer and a modem (FAFSA Express). They can also use a paper FAFSA. Students who have applied in previous years may also be able

Change in Satisfactory Progress Status Example 2

Edison College treats the entire academic year as Andrew's period of enrollment. Because Andrew regains satisfactory progress during this period of enrollment (at the end of the fall term), Andrew can receive a FFEL for the entire academic year.

Satisfactory Academic Progress Appeal Example

Steven is attending Brust Conservatory, and at the end of his second year, Brust determines that he isn't making satisfactory progress. He files an appeal in the fall, after he realizes he won't receive aid for the fall term. Brust finally approves his appeal in January, after the fall term is over. Steven can't receive Pell or campus-based funds for the fall term, but can receive aid for the winter term. Steven can also receive a Direct Loan for the entire year, because the entire year is his period of enrollment.

Exception to FAFSA Requirement

A student doesn't need to complete a FAFSA if the only aid he or she wants to receive is a PLUS Loan, although one of the student's parents will need to complete a loan application and promissory note.

Advantages of Electronic Filing

All the methods of electronic application share the following benefits:

- *Faster processing than paper applications*
- *Reduced rate of rejection*
- *Internal and end-of-entry data edits to ensure that all required fields are completed and all conflicting data is resolved prior to submission*
- *Skip logic, which helps "shorten" the form by allowing applicants to skip over questions that don't pertain to them*
- *Availability of online help*

to use a Renewal FAFSA. Renewal FAFSAs can be completed through EDE, on the Web, or on paper.

Electronic Data Exchange (EDE)

If the school is going to file the student's application through EDE, it should first have the student complete a paper FAFSA. The school can then enter the data from the FAFSA electronically and submit it to the CPS through EDE. EDE services are provided as a part of the Department's contract for the Title IV Wide Area Network (TIV-WAN). For more information on the TIV-WAN contact TIV-WAN Customer Service at 1-800-615-1189.

FAFSA on the Web

FAFSA on the Web is an Internet application that allows a student to complete his or her FAFSA data and submit that data directly to the CPS. The web address is <http://fafsa.ed.gov> The web site tells the students which web browsers currently can be used with *FAFSA on the Web*. For more information about *FAFSA on the Web* or for technical assistance, a student can call 1-800-801-0576.

FAFSA Express

FAFSA Express allows students to apply electronically without using the web. *FAFSA Express* requires only an IBM-compatible computer with a Windows operating system and a modem. A student can order the program by calling 1-800-801-0576, or can download it from the web at <http://www.ed.gov/offices/OPE/express.html>.

A student who files using *FAFSA Express* may save his or her data to a diskette but can't save this personal data to a computer's hard drive. A student using *FAFSA Express* transmits the application data to the CPS via modem.

Paper FAFSA

There are two paper FAFSAs a student can use: the Department-printed FAFSA and FAFSA.PDF. FAFSA.PDF is a downloadable FAFSA in Portable Document Format (PDF), which a student can get from the Department's web site at <http://www.ed.gov/offices/OPE/express.html>. After downloading FAFSA.PDF, a student must print it out. He or she can then complete it and mail it just like the Department-printed FAFSA.

Renewal FAFSA

Finally, note that some students won't have to complete an entire FAFSA, but rather can use a Renewal FAFSA. The Renewal FAFSA can be completed through EDE, on the Web, or on paper. Most of the data from the previous year will already be filled in. The student just needs to change the items that are different and provide new information for a small number of items.

EDE

In the fall, schools participating in EDE can request Renewal FAFSAs for some or all of the students who listed that school on their applications for the previous year. The school can either

Using Portable Document Format (PDF)

In order to view and print FAFSA.PDF, or any other PDF, you must have Adobe Acrobat Reader software. The Reader software is free, and can be downloaded from Adobe at <http://www.adobe.com/prodindex/acrobat/readstep.html>.

EDE 1999-2000 Renewal FAFSA Cite

1999-2000 Action Letter #1, September 1998 (GEN-98-19) request the electronic Renewal FAFSA records or ask for paper applications (see "Paper" below). A school that requested only the electronic Renewal FAFSA records must enter and transmit completed Renewal FAFSAs for those students. More information on this process is provided each year in an Action Letter published in the fall. For questions about Renewal FAFSAs, call CPS Customer Service at 1-800-330-5947.

Automatic Recipients of EACs

Applicants in the Renewal Application database that filed on the Web in 1998-99

Applicants in the Renewal Application database who reported in 1998-99 that they were fifth year/other undergraduates, graduates, or professionals and expected to finish their program after July 1, 1999 (or didn't answer this question)

Renewal FAFSA on the Web

Some students who applied for federal student aid in 1998-99 can reapply in 1999-2000 on the web using *Renewal FAFSA on the Web.* To protect the student's information, the student must use an Electronic Access Code (EAC) to access his or her Renewal Application on the Web. The EAC is randomly generated, and is the same from year to year. Some students may automatically receive an EAC from the CPS in the mail. Other students can apply for the EAC at <http://eac.ed.gov>. The EAC is always sent to the address that's on file from the previous year (the EAC mailer can be forwarded, but the student can't ask the CPS to send it to a different address). If the student doesn't have an EAC, he or she won't be able to use Renewal FAFSA on the Web, but might be able to submit one of the other types of Renewal Applications. For more information about *Renewal FAFSA on the Web* or for technical assistance, call 1-800-801-0576.

Paper

As mentioned above, a school can request Renewal FAFSAs for students who listed that school on their applications for the previous year. The school can request that the CPS print paper applications and mail them to the school. The school is then responsible for distributing these paper Renewal FAFSAs to the students. Note that the CPS won't send a school paper Renewal FAFSAs for students who were automatically sent an EAC (graduate students and web filers).

For 1999-2000, the CPS mailed Renewal FAFSAs to students who applied for federal student aid in 1998-99 and who met certain conditions—for instance, their SSNs and addresses were valid, they were not in default, and so forth. These students should have received Renewal FAFSAs in the mail or from their schools some time after November 1998. (The CPS prints and mails Renewal FAFSAs only to those students whose records were not requested by a school.)

Processing

After the application is completed, it's sent to Department contractors (the FAFSA Processor and the CPS) for processing. The FAFSA Processor inputs data from paper applications and sends it to the CPS. The CPS receives data both from the FAFSA Processor and directly from electronic applications. It uses the data to calculate the EFC and match the student's data against a number of databases, such as the Social Security Administration's citizenship database, the

Immigration and Naturalization Service's database of noncitizens, and the Selective Service System registration database.

The CPS also checks the application, using several editing criteria designed to detect possible inconsistencies and mistakes. For instance, if a dependent student reported the parents' marital status as married but also reported the household size as "2," the CPS edit checks would catch the inconsistency. If the data is inconsistent, the CPS may be unable to calculate the EFC or may calculate an EFC based on automatic assumptions. For applications submitted through EDE, the school can anticipate certain assumptions and correct or override certain information on the student's first application. Students who submit applications using *FAFSA on the Web* or *Renewal FAFSA on the Web* can also override some of the CPS edits.

After all the processing is complete, the CPS produces output documents (or records) that report the information the student originally provided, the EFC, the results of the eligibility matches, and information about inconsistencies discovered through the CPS edits.

Matches and student rights

The Computer Matching and Privacy Protection Act of 1988 prohibits a school from suspending, terminating, or reducing SFA funds; making a final denial of SFA funds; or taking other adverse action against a student based on the results of an interagency data match unless the student has been notified and has had time to respond to the notification. This law applies to all the data matches performed by the CPS.

Output documents

There are two basic types of output documents: the *Institutional Student Information Record* (ISIR), which is sent to the school, and the *Student Aid Report* (SAR), which is sent to the student. These output documents contain the student's EFC, the student's application information, and other information for the FAA.

A school receives ISIRs electronically. Only a school listed on the student's FAFSA will automatically receive an ISIR through EDE. A student can list up to six schools at a time. A school can also request an ISIR for a student if it has the student's Data Release Number (DRN). The DRN is printed on the front of the student's SAR. The DRN is also included on the ISIR in the FAA Information Section if the school receiving the ISIR originally entered the student's application. Schools are required to be able to receive ISIRs, and cannot require students to submit SARs to the school in order to receive aid. The school **can** require the student to use a SAR (instead of EDE) for corrections. Also, if the school doesn't have an ISIR for a student who has provided a SAR, the school must process the SAR for the awarding of SFA aid. The school must also be sure that it's added to the CPS record for the student (see Chapter 9 of this publication).

The student will receive an output document from the CPS within four weeks of submitting the FAFSA. Most students will receive a

Obsolete ISIR Formats

Schools used to be able to receive ISIRs on tape or cartridge through the Applicant Data Service. Beginning in the 1999-2000 award year, this option is no longer available. Schools can only receive ISIRs through EDE.

regular SAR. However, students who filed electronically through EDE will instead receive a special kind of SAR, called a *SAR Information Acknowledgement*. The difference between the two is that the student can't correct the *SAR Information Acknowledgment*. Only the SAR has a separate part that's used for corrections. The *SAR Information Acknowledgement* also has less detailed comments for the student.

Reject Example

Sioned isn't married, but is living with her boyfriend. She reports on the FAFSA that she's single, but also reports her boyfriend's income as spouse's income. Her application is rejected; she receives a reject reason code of 11 and a comment explaining that she reported contradictory information. Sioned must submit a correction changing the spouse's income to zero.

The output document indicates any questionable results from the eligibility matches described above. For instance, if a student has defaulted on a federal student loan, the student's output document will note this in a number of locations (including comments to the student and the NSLDS Financial Aid History page). The student may still be eligible for federal aid, but the school must resolve the questions before delivering any funds to the student.

If there were certain types of problems in the student's application, the output document will show that the student's application has been rejected. Reject codes are provided in the FAA Information section, and no EFC is calculated. The student must provide further information or corrections to the CPS in order to receive an EFC. The student's output document will have instructions for the student on how to correct the problem. We'll be discussing some specific types of "rejects" in the relevant sections. A complete list of reject codes is provided in *A Guide to 1999-2000 SARs and ISIRs*

Deadlines

The application processing cycle lasts 18 months. For the 1999-2000 award year, application processing began in January 1999, and applications for that year will be accepted until June 30, 2000.

The processor must receive a student's electronic FAFSA transmission by June 30, 2000. A paper FAFSA must be legible and mailed to the Federal Student Aid Programs address specified in the FAFSA in time for the processor to receive it by the deadline. There are **no exceptions** to these Department deadlines. An electronic application record received before January 1, 1999 or after June 30, 2000 will not be processed. An application signed before January 1, 1999 or received after June 30, 2000 will be returned unprocessed with a letter of explanation.

Every year, the Department publishes a deadline notice that provides all the processing deadline dates. The deadline notice for the 1998-99 award year was published on June 26, 1998. When the deadline notice for the 1999-2000 award year is published, it will be available on the IFAP web site. However, the following list shows the projected deadline dates for the 1999-2000 award year.

- Corrections on a paper SAR must be received by August 15, 2000.
- Corrections through EDE must be received and accepted by the CPS before 7:00 pm (central time) on August 25, 2000.

- Address and school changes through the Federal Student Aid Information Center (FSAIC) can be made through August 25, 2000.

- To give a Pell to a student, a school must have a valid output document while the student is still enrolled for the award year, but no later than August 31, 2000.

- For Pell recipients selected for verification, the school must have verification documents and a valid output document no later than 90 days after the last day of enrollment or August 31, 2000, whichever is earlier.

Reauthorization Information Sources

"Dear Colleague" letter GEN-98-28, November 1998; IFAP web site at <http://ifap.ed.gov /csb_html/heareauth.htm>

RECENT CHANGES

On October 7, 1998, President Clinton signed into law the Higher Education Amendments of 1998 (Pub. L. 105-244). This law reauthorized the student financial assistance programs, and made a number of changes to those programs. Many of the provisions went into effect on October 1 or October 7 of 1998. There are also some changes for the 1999-2000 award year that aren't related to the Amendments of 1998, such as the redesigned FAFSA

Implementation of the Amendments of 1998

Section 492 of the Higher Education Act requires the Department to obtain input from the financial aid community in the development of proposed regulations for the SFA Programs. The Department is obtaining this input through regional meetings and through a process called "negotiated rulemaking."

In negotiated rulemaking, the Department meets with representatives of many areas of the financial aid community, such as students, schools, and guaranty agencies, to obtain advice and recommendations for effective implementation through regulation of SFA Program requirements.

Most of the new statutory provisions of the Amendments of 1998 are subject to the requirements of the negotiated rulemaking process. At the time this Handbook goes to print, the Department is in the middle of that process. As a result, guidance for implementation of these provisions of the Amendments of 1998 is under discussion and is not available for this publication. Interim guidance may be issued on the Department's "Information for Financial Aid Professionals" web site after these provisions are discussed further with the higher education community during the negotiated rulemaking process.

The student eligibility provisions that are in effect for the 1999-2000 award year include:

- eligibility for home-schooled students (see Chapter 1);

- changes to rules for telecommunications courses (see Chapter 1);

Delivery System Changes Cite
1999-2000 Action Letter #3, November 1998 (GEN-98-26)

Suspension of Eligibility for Drug Conviction
A student's eligibility for SFA assistance is suspended if the student has been convicted of any offense under federal or state law involving the possession or sale of a controlled substance. The length of the suspension depends on the type of offense and number of offenses. A student can regain eligibility by completing a drug rehabilitation program that meets criteria specified in regulations. This provision became effective on October 7, 1998. The Department will be providing further information on the implementation of this provision.

- suspension of eligibility for drug convictions (see the sidebar);
- a change to treatment of Americorps benefits and veterans benefits in awarding aid (see Chapter 10);
- the addition of personal computer and equipment for telecommunications study to the cost of attendance (see Chapter 10).

There are also changes to the EFC calculation which don't go into effect until the 2000-2001 award year. Because they aren't in effect yet, these changes aren't discussed in this publication:

- Parents of a dependent student are excluded from the number in college;
- Income protection allowances are increased for dependent students and independent students without dependents other than a spouse;
- Proration for less than 9 months of attendance is added for independent students, and for a dependent student's contribution;
- A dependent student's income is adjusted if the parents have negative available income under certain conditions.

Other Changes

The 1999-2000 FAFSA has been redesigned to make it easier for students and parents to complete. The changes are discussed in detail in Action Letter #3. Some of the changes are covered in this publication as well:

- The definition of parent has been changed so a legal guardian is no longer considered a parent (see Chapter 6 of this publication).
- The simplified needs test worksheets have been removed (see Chapter 7 of this publication).
- Students and parents now report only the net worth of assets, instead of reporting both the value and the debt. (see Chapter 6 of this publication).

Some other changes for the 1999-2000 award year are:

- the addition of new data matches
    - Δ a match with the Social Security Administration to identify prisoners (planned for the spring of 1999; see Chapter 1 of this publication)
    - Δ a match with the Social Security Administration to identify SSNs that belong to deceased persons (also planned for the spring of 1999; see Chapter 4 of this publication)
    - Δ a match with the Department of Veterans Affairs to confirm a student's claim to be a veteran (see Chapter 6 of this publication)
- the addition of the American College Testing Service (ACT) test to the list of approved ability-to-benefit tests (see Chapter 1 of this publication)
- the new requirement to report Pell and FSEOG overpayments to NSLDS(see Chapter 3 of this publication)
- new comments on output documents for students who appear to have exceeded (or are close to exceeding) aggregate loan limits. (see Chapter 3 of this publication)

We are interested in hearing your comments or suggestions on ways to make the SFA Handbook more useful. Please send your comments to:

Development Section
Department of Education
ROB-3, Room 3013
7th and D Streets, SW
Washington, DC 20202

School-Based Requirements

CHAPTER 1

In this chapter, we discuss student eligibility requirements that don't require information from the Department's systems. The school determines on its own whether the student meets the eligibility requirements. In some cases, the financial aid office will need to get information from other school offices (such as the admissions office or the registrar) or from other organizations (such as high schools or testing agencies).

REGULAR STUDENT IN AN ELIGIBLE PROGRAM

An individual must be enrolled as a regular student in an eligible program in order to receive SFA funds (with two exceptions that are discussed later). A regular student is someone who is enrolled (or accepted for enrollment) for the purpose of obtaining a degree or certificate offered by the school. The definition of an eligible program is discussed in detail in the *SFA Handbook: Institutional Eligibility and Participation.*

The school must determine separately for each individual student taking courses that are part of an eligible program if that student is a regular student. The school must also document each student's status in the student's files. The school is only required to document a student's enrollment in an eligible program at the time of admission. However, it must be able to notify the financial aid office should the student leave the program at any time during the course of enrollment.

Regular Student Cites
Sec. 484(a)(1), (b)(3), (4); 34 CFR 668.32(a)(1)

Regular Student Example
Lem Community College allows anyone with a high school diploma or the equivalent to enroll in any of its courses. Many of these students do not intend to receive a degree or certificate. Lem requires students who want to receive a degree or certificate to complete a form stating which degree or certificate they are studying for and to meet regularly with an academic advisor. It considers such students to be regular students; other students in the same classes are not regular students.

Continuing Education

Eligibility for students enrolled in a continuing education program depends on enrollment distinctions made by the school. If the school considers those students to be enrolled for the purpose of receiving a degree or certificate, and to be enrolled in an eligible degree or certificate program, the students are regular students, and may be eligible for SFA funds. Many students in continuing education will merely be taking coursework and are not enrolled as regular students in a degree or certificate program. These students are not eligible for SFA aid.

Continuing Education Example
Guerrero University has a Continuing Education Program (CEP) through which students can enroll in many of the courses Guerrero offers. These students don't need to meet the normal admission requirements for degree programs at Guerrero. Although a student can complete all the coursework for a bachelor's degree through the CEP, Guerrero doesn't award bachelor's degrees through this program. Therefore, Guerrero doesn't consider a student taking coursework leading to a bachelor's degree through the CEP to be a regular student enrolled in an eligible program. Other students in the CEP (for example, those in the one-year certificate programs) may be considered regular students.

Conditional Acceptance

Some schools admit students under a conditional or "provisional" acceptance. For example, a student might be conditionally accepted until he or she provides further documentation (such as academic transcripts or test scores) or demonstrates an ability to succeed in the program (by receiving acceptable grades in program coursework). Typically the school will limit the student's enrollment, in terms of number of courses or enrollment status, until the student meets the necessary conditions.

Conditional Acceptance Example

Guerrero University provisionally accepts students into its graduate programs before they have taken the GRE. It limits these students to taking no more than 3 courses in their program and does not officially admit them until they submit acceptable scores. These students aren't regular students, and aren't eligible for SFA funds.

Students admitted as conditional or provisional accept students are regular students only if they are officially accepted into the eligible degree program, as determined by the school's admission policies. The Department does not define the meaning of official acceptance or admission. If the student must meet certain requirements before being officially admitted to the program, the student isn't considered to be a regular student, and is not eligible, until he or she is officially admitted.

Remedial Coursework

Remedial coursework prepares a student for study at the postsecondary level. If a student is enrolled solely in a remedial program, the student is not considered to be in an eligible program and thus is not eligible for SFA funds. Although the student is not a regular student in an eligible program, he or she might be eligible for Direct Loan or FFEL funds, as described under "Preparatory Coursework," page 15. A student whose acceptance into the eligible program is contingent on completing the remedial work cannot be considered to be enrolled in the eligible program until he or she completes the remedial work.

If the student is admitted into an eligible program and takes remedial coursework within that program, the student can be considered a regular student. In addition, a limited amount of the remedial coursework can be counted in the student's enrollment for the purposes of financial aid. The remedial coursework must be at least at the high-school level, as determined by the state legal authority, the school's accrediting agency, or the state agency recognized for approving public postsecondary vocational education. A school can't take into account more than one academic year's worth of remedial coursework for a student. For the purposes of this limit, an academic year's worth of coursework is 30 semester or trimester hours, 45 quarter hours, or 900 clock hours. ESL courses don't count against these limits. Note that if the remedial coursework is noncredit or reduced-credit, the school must determine how many credit hours the coursework is worth to count it in the student's enrollment (see "Enrollment Status," page 25, for more information).

A school cannot count noncredit remedial hours in the student's enrollment if the noncredit remedial course is part of a program that leads to a high school diploma or its recognized equivalent. A student is never permitted to receive funds for GED training or for high school, even if the GED or high school training is offered at postsecondary schools. These remedial hours must not be counted, even if the course is required for completing the postsecondary program.

Preparatory Coursework

A student not enrolled in a degree or certificate program is eligible for Direct Loans or FFELs for a period of up to one year if the student is taking coursework necessary for his or her enrollment in an eligible program. The coursework must be part of an eligible program otherwise offered by the school, although the student does not have to be enrolled in the eligible program. If a student is enrolled at least half time in these prerequisite courses and if the courses are part of an eligible program, the student is eligible for loans for one consecutive 12-month period beginning on the first day of the loan period for which the student is enrolled. If the 12-month period of preparatory coursework represents more than one academic year, the student may receive multiple loans.

To be eligible under this exception, the student must be taking courses that are a prerequisite for admission. If the student is simply taking the courses to raise his or her GPA in order to be admitted, the student would not qualify for loans under this exception.

Teacher Certification

A student may receive Perkins Loans, FWS, Direct Loans, or FFELs if he or she is enrolled at least half time in a required teacher certification program, even though the teacher certification program does not lead to a degree or certificate awarded by the school. To qualify, the program must be required for elementary or secondary teacher certification or recertification in the state where the student plans to teach or in the state where the student is completing the program. Optional courses that the student elects to take for professional recognition or advancement, and courses recommended by the school but not required for certification do not qualify. The school should document that the courses are required by the state for teacher certification.

Due to changes made by reauthorization, a student enrolled in a teacher certification program can also receive a Pell in certain limited situations. Effective October 7, 1998 the Department, on a case-by-case basis, can allow a student to receive a Pell if the student is enrolled at least half time at a school that doesn't offer a bachelor's degree in education and is in a postbaccalaureate program not leading to a graduate degree and taking teacher certification courses required that the state requires to teach in that state. The Department will be providing more information on the implementation of this provision

ELEMENTARY OR SECONDARY ENROLLMENT

A student enrolled in elementary or secondary school is not eligible for aid from the SFA programs. Such a student is not eligible even if he or she is simultaneously enrolled in an eligible postsecondary program.

Definition of Secondary School Enrollment

A student is considered to be enrolled in a secondary school if he or she is pursuing a high school diploma. A student who has

Preparatory Coursework Example

Eddy has a bachelor's degree, with a major in mathematics. He wants to enroll in a graduate computer science program at Guerrero University. He needs 12 more semester hours of computer science coursework to meet Guerrero's admission requirements. He enrolls in courses that are part of Guerrero's undergraduate degree program, but because he is not enrolled for the purpose of receiving an undergraduate degree, he is not an eligible student. However, because the coursework is necessary for his enrollment in the graduate program, he may receive a FFEL or Direct Loan for this coursework.

Elementary/Secondary Enrollment Cites

Sec. 484(a)(1), 34 CFR 668.32(b)

Elementary or Secondary Enrollment Example

Lida is a junior in high school. She enrolls in an electronics technician program at Lem Community College; the coursework is offered in the evenings and weekends, so she can still attend her high school classes. The electronics technician program is an eligible postsecondary program, and Lida will receive a certificate from Lem when she completes the program. However, she is not eligible for aid because she is still enrolled in high school.

completed the diploma requirements but has not yet received a diploma is still considered to be enrolled in secondary school if he or she is taking postsecondary coursework for which the high school gives credit. A student who has completed but not received a diploma is also considered to be enrolled in secondary school if the high school granting the diploma still considers the student to be enrolled at that school.

An adult pursuing a GED (not a diploma) would not be considered to be enrolled in secondary school. However, as mentioned earlier, a student can't receive aid for the GED training, although he or she could receive aid for other coursework he or she was taking at the same time. In addition, an adult taking special courses at a high school that are not part of the state's high school diploma requirements would not be considered to be enrolled in secondary school.

ACADEMIC QUALIFICATION (DIPLOMA OR ABILITY TO BENEFIT)

To receive SFA funds, a student must be qualified to study at the postsecondary level. For SFA purposes, a student with a high school diploma or its recognized equivalent is considered qualified.

A student without a diploma or equivalent can be eligible for SFA funds if he or she passes a Department-approved test or enrolls in a school that participates in a Department-approved state process (no state processes have yet been approved).[1] As of October 1, 1998, home-school students are also eligible under certain circumstances (see "Home-Schooled Students," page 17).

High School Diploma or Equivalent

The Department recognizes several equivalents to the high school diploma:

- General Education Development (GED) certificates and state certificates;
- For a student enrolling in an program at the associate-degree level or higher, documentation that the student excelled academically in high school and has met the school's admissions standards;
- A certificate of completion of a home-study program if the program is recognized by the student's home state;
- A student's postsecondary school academic transcript if the student has completed a program of at least two years in length that is acceptable for full credit toward a bachelor's degree.

Secondary School Enrollment Example

Owen, a student at Guerrero University, decides to take a driver's education course at the local high school during the summer. Because his state does not require driver's education for the high school diploma, he is not considered to be enrolled in secondary school, and could receive financial aid for summer courses taken at Guerrero.

Academic Qualification Cites

Sec. 484(d), 34 CFR 668.32(e)

Recognized Equivalent of a High School Diploma Cites

34 CFR 600.2

Diploma Equivalent Example

Kitty enrolls in the bachelor's degree program at Bennet College. She didn't graduate from high school, and doesn't have a GED. Bennet looks at her high school records to see if she excelled academically in high school. Because she had a C average, Bennet decides she didn't excel academically, and so doesn't have the equivalent of a high school diploma. If she were enrolled in a two year program that counted as two years of her bachelor's degree, she'd have the equivalent of a high school diploma when she completed that program, and would be eligible for SFA funds for the last two years of her degree program. Instead, she'll need to take an ability-to-benefit test if she wants to receive SFA funds.

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[1] In the case of a school with branch campuses, the process must have been approved by the state in which the branch the student is attending is located.

A high school diploma from a foreign school **is** considered a high school diploma for SFA purposes.

Documentation of diploma

A school isn't required to ask for a copy of a high school diploma or GED. A school may accept as documentation a student's statement that he or she has a high school diploma or GED.

Home-Schooled Students

As mentioned previously, a certificate of completion of a home-study program is considered the equivalent of a high school diploma if the program is recognized by the student's home state. However, not all states officially recognize home-study programs, so some home-schooled students don't have the equivalent of a high school diploma. Reauthorization added a specific provision for the eligibility of these home-schooled students. As of October 1, 1998, a student without a high school diploma can receive aid if he or she has completed a secondary school education in a home school setting that is treated as a home school or private school under state law. The Department will be providing further information on the implementation of this provision.

Ability-to-Benefit Test

If the student doesn't have a diploma or the equivalent, he or she can still qualify by passing a Department-approved test, called an ability-to-benefit test. The test must be independently administered in accordance with Department regulations.

Approved tests

The Department publishes notices of approved tests in the *Federal Register*. On October 27, 1998, the Department published a notice adding the American College Testing Service (ACT) test to the list of approved tests. The Department published a correction to this notice on December 1, 1998. A list of all the currently approved tests is on page 19. You can also call Customer Support at 1-800-433-7327 for information on tests approved after this publication went to print. A school doesn't have to use the same test for all its students, but can pick whichever one is most suitable for each individual student.

Special needs

The regulations take into account the special needs of students with documented disabilities and students who are not native speakers of English. Under certain circumstances, special testing procedures or instruments may be used for testing such individuals. For students whose native language is not English, the school must use one of the approved tests listed on page 19 if a student enrolls in a program taught in English without an English as a Second Language (ESL) component or if the student does not enroll in an offered ESL component. Otherwise, the school may use a test approved in the student's native language or an ESL test, as appropriate.

The regulations contain provisions for approving tests for students whose native language is not English and who are not fluent in English

Home-Schooled Students Cite
Sec. 484(d)(3)

Ability-to-benefit Regulations
Subpart J of Part 668

Factors for Test Selection
When selecting a test, the school should consider the following:

- ***Relevance of test to the educational program.*** *Are the skills and abilities assessed important for the successful completion of the student's planned program of study?*
- ***Level of difficulty of the test.*** *Is the overall level of difficulty appropriate to the population of prospective students being assessed and to the coursework required in the program?*
- ***Native language.*** *If the student's program will be taught in a language other than English, the student should be permitted to take the test in the language of the program. (See "Special needs.")*
- ***Tests for students with physical disabilities.*** *Students with physical disabilities should receive appropriate assistance in test taking, in accordance with the guidelines developed by the American Educational Research Association, the American Psychological Association, and the National Council of Measurement in Education.*

Independently Administered

To be independently administered, a test must be given by an individual or by an organization with no current or prior financial or ownership interest in the school, its affiliates, or its parent corporation other than the interest generated through its agreement to administer the approved test. The test can't be given by a current or former employee, consultant, or student of the school, an owner or member of the board of directors, a person with a financial interest in the school, or a relative of any of these individuals. In addition, the test administrator cannot score the test, but must submit it to the publisher for scoring.

A test is also independently administered if it is given at an assessment center. An assessment center is located at an eligible degree-granting school or public vocational institution, and is responsible for evaluating students for multiple purposes, such as course placement. It must not have administering ATB tests as its primary purpose. The assessment center must be staffed by professionally trained personnel and be independent of the admissions and financial aid process. An assessment center may score students' tests, unless its agreement with the test publisher prohibits it.

and for students who have disabilities. At the time this publication went to print, no such tests had been approved. Therefore, schools should make ATB eligibility determination for these students based on guidelines stated in the December 30, 1992 *Federal Register* and by using tests approved as of June 30, 1996. The Department is in the process of approving tests for students with disabilities. When such tests are approved, the Department will publish a notice in the *Federal Register*, and the notice will be available on the IFAP web site. Schools may continue to use the previous tests and procedures until 60 days after the Department publishes the name and score of new approved tests in the *Federal Register*.

Test approval

The regulations address both approval and administrative procedures for test publishers. The Department evaluates the submitted tests according to the regulatory guidelines. The Department will also review all state tests or assessments that are submitted for approval. If a state test meets the criteria for approval, both public and private schools in that state may use the test. Note that no such tests have yet been approved.

To apply for approval, the test publisher must submit its test and certain documentation specified in the regulations. After receiving an application, the Department will notify the test publisher of approval or disapproval. If a test is approved, the Department will then publish in the *Federal Register* the name of the test and the test publisher and the passing score required for students taking the test. The minimum passing score for each test is included in the list on the next page.

Administering tests

The regulations also specify testing procedures school must follow. The school should make arrangements with one or more test administrators, who must be certified by the test publisher. The school should contact the test publisher to locate a certified test administrator. Certified administrators may include but are not limited to people in these fields:

- high school guidance counselors;
- qualified professional educators;
- regional Armed Forces Commands staff who are experts in education, training, and human resource development;
- test and measurement experts; and
- human resource development professionals.

To be acceptable for SFA purposes, an approved test must be independently administered. In addition, all tests must be administered in accordance with the procedures specified by the test publisher. Such procedures address, but are not limited to, time limits for completion, rules on how often and within what time frame the

Approved Ability-to-Benefit Tests

TEST NAME	*PASSING SCORE*	*PUBLISHER*
American College Testing (ACT): (English and Math)	English (14) and Math (15)	American College Testing (ACT), Placement Assessment Programs, 2201 North Dodge Street, P.O. Box 168, Iowa City, Iowa 52243, Contact: James Maxey, Telephone: (319) 337-1100, Fax: (319) 337-1790
ASSET Program: Basic Skills Tests (Reading, Writing, and Numerical)—Forms B2 and C2	Reading (34), Writing (34), and Numerical (33)	American College Testing (ACT), Placement Assessment Programs, 2201 North Dodge Street, P.O. Box 168, Iowa City, Iowa 52243, Contact: John D. Roth, Telephone: (319) 337-1030, Fax: (319) 337-1790.
Career Programs Assessment (CPAT) Basic Skills Subtests (Language Usage, Reading and Numerical)—Forms A, B, and C	Language Usage (43), Reading (44), and Numerical (42)	American College Testing (ACT), Placement Assessment Programs, 2201 North Dodge Street, P.O. Box 168, Iowa City, Iowa 52243, Contact: John D. Roth, Telephone: (319) 337-1030, Fax: (319) 337-1790
COMPASS Subtests: Prealgebra/Numerical Skills Placement, Reading Placement, and Writing Placement	Prealgebra/Numerical (21), Reading (60), and Writing (31)	American College Testing (ACT), Placement Assessment Programs, 2201 North Dodge Street, P.O. Box 168, Iowa City, Iowa 52243, Contact: John D. Roth, Telephone: (319) 337-1030, Fax: (319) 337-1790
Computerized Placement Tests (CPTs)/Accuplacer (Reading Comprehension, Sentence Skills, and Arithmetic)	Reading Comprehension (52), Sentence Skills (60), and Arithmetic (36)	The College Board, 45 Columbus Avenue, New York, New York 10023-6992, Contact: Ms. Loretta M. Church, Telephone: (212) 713-8000, Fax: (212) 713-8063
Descriptive Tests of Language Skills (DTLS) (Reading Comprehension, Sentence Structure and Conventions of Written English)—Forms M-K-3KDT and M-K-3LDT; and Descriptive Tests of Mathematical Skills (DTMS) (Arithmetic)—Forms M-K-3KDT and M-K-3LDT	Reading Comprehension (108), Sentence Structure (9), Conventions of Written English (309), and Arithmetic (506)	The College Board, 45 Columbus Avenue, New York, New York 10023-6992, Contact: Ms. Loretta M. Church, Telephone: (212) 713-8000, Fax: (212) 713-8063
Test of Adult Basic Education (TABE): (Reading Total, Total Mathematics, Total Language)—Forms 5 and 6, Level A, Complete Battery and Survey Versions	Reading Total (768), Total Mathematics (783), Total Language (714)	CTB/McGraw-Hill, 20 Ryan Ranch Road, Monterey, California 93940-5703, Contact: Ms. Tina Gwaltney, Telephone: (831) 393-7749, Fax: (831) 393-7142
TABE (Reading, Total Mathematics, Language)—Forms 7 and 8, Level A, Complete Battery and Survey Versions	Reading (559), Total Mathematics (562), Language (545)	CTB/McGraw-Hill, 20 Ryan Ranch Road, Monterey, California 93940-5703, Contact: Ms. Tina Gwaltney, Telephone: (831) 393-7749, Fax: (831) 393-7142
Wonderlic Basic Skills Test (WBST)—Verbal Forms VS-1 & VS-2, Quantitative Forms QS-1 & QS-2	Verbal (200) and Quantitative (210)	Wonderlic Personnel Test, Inc., 1509 N. Milwaukee Ave., Libertyville, IL 60048-1380, Contact: Mr. Victor S. Artese, Telephone: (800) 323-374, Fax: (847) 680-9492

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Satisfactory Academic Progress Cites
Sec. 484(c), 34 CFR 668.32(f) and 668.34

Requirements for Satisfactory Academic Progress Policy Cite
34 CFR 668.16(e)

test may be readministered, whether the test may be given verbally, and so on. If a test comprises multiple parts, all **relevant** parts, as listed in the approval notice, must be administered in order for the test to be valid. The approval notice published by the Department will show either the approved score for each subpart or an approved composite score.

Previous determination

If a school properly determined that a student had the ability to benefit under the rules that were in effect before July 1, 1996, the school does not have to redetermine the student's eligibility under the newer rules.

A student who has taken an approved, independently administered test within the last 12 months may submit the official test-score notification to the school to demonstrate his or her ability to benefit. If the school accepts the results of a previously administered test, that school must obtain documentation showing that the test and its administration meet federal requirements. If a student withdraws from school before receiving SFA funds and then re-enrolls more than 12 months after taking the test, he or she must be retested, unless he or she now has a high school diploma or equivalent.

SATISFACTORY ACADEMIC PROGRESS

To be eligible for SFA aid, a student must make satisfactory academic progress. Each school must have a satisfactory academic progress policy, which must contain elements specified in the regulations. A school can use satisfactory progress standards set by a state, accrediting agency, or some other organization, as long as those standards meet the federal requirements. A school must monitor its SFA recipients to ensure that they are meeting the school's satisfactory progress standards.

A school's satisfactory progress policy for students receiving SFA funds must be at least as strict as the policy used for students who do not receive SFA funds. The policy must be applied consistently to all SFA recipients within identifiable categories of students (such as full-time or part-time, graduate, or undergraduate students).

Minimum Standards

The school's satisfactory progress policy can include whatever standards the school finds acceptable, as long as the policy meets the minimum statutory and regulatory requirements. The school's satisfactory progress policy must include both a qualitative measure (such as the use of cumulative grade point average) and a quantitative measure (such as a maximum time frame for completion) of the student's progress. The law and regulations specify minimum standards for these two measures. The school may set stricter standards in its policy.

Qualitative standards

The law specifies that by the end of the second academic year (measured as a period of time, not by the student's grade level), the student must, in general, have a C average or its equivalent, or have an academic standing consistent with the requirement for graduation from the program. If a school does not use letter grades, a school's satisfactory progress policy should define "equivalent of a C average."

If a school determines that a student has maintained satisfactory progress standards even though his or her average falls below a C average, the school must be able to document that the student's average is consistent with the academic standards required for graduation.

Rather than using a single fixed standard throughout the program, a school may use a graduated grade point requirement. For example, a school using a 4-point scale can require students to have a 2.0 average by graduation, but allow the student's average to be lower earlier in the student's academic career. If school policy permits progression toward the 2.0 graduation requirement, the school may permit a lower standard at the end of the second academic year.

Quantitative standards

To accurately measure a student's progress in a program, more than a qualitative standard is needed. A student who is maintaining a high GPA by withdrawing from every course he or she attempts after the first year would meet a qualitative standard, but wouldn't be progressing towards graduation. Therefore, the satisfactory progress policy must also include a quantitative measure to determine the number or percentage of courses, credit hours, or clock hours completed.

To quantify academic progress, a school must set a maximum time frame in which a student is expected to finish a program. For an undergraduate program, the maximum time frame cannot exceed 150% of the published length of the program measured in academic years, academic terms, credit hours attempted, or clock hours completed, as appropriate. For instance, if the published length of an academic program is 120 credit hours, the maximum time frame established by the school must not exceed 180 attempted credit hours (that is, 120 x 1.5). The school decides which way of measuring the length is most appropriate.

To ensure that a student is making sufficient progress throughout the course of study, the school must divide the maximum time frame into equal evaluation periods called increments. An increment can't be longer than half the program or one academic year, whichever is less. In other words, for a school's 700-clock-hour program, an increment must not exceed 350 clock hours. For a school's 2,000-clock-hour program, an increment must not exceed 900 clock hours if the school defines the academic year as 900 clock hours. Increments generally are expected to coincide with payment periods.

No Letter Grade Example

Bennet College doesn't use a letter grading system, and in fact doesn't assign any grades. Instead, students only receive credit for a course if they successfully complete the course. If a student doesn't successfully complete a course, it's not listed on the student's transcript and the student must retake the course if it's required for his or her degree. Bennet College considers a student to have the equivalent of a C average if he or she has successfully completed at least half of the courses he or she has attended.

Graduated Qualitative Standard Examples

Guerrero University requires students to have a 2.0 GPA to graduate. A student who has completed 30 semester hours or less must have a 1.6 GPA, and a student who has completed 31 to 60 semester hours must have a 1.8 GPA. Students who have completed more than 60 semester hours must have a 2.0 GPA. In her first year at Guerrero University, Emma takes 28 semester hours, and her GPA is 1.9. Because her GPA is higher than 1.6, she meets Guerrero's satisfactory progress standards.

Owen is also attending Guerrero, and has been attending part-time. At the end of his second year at Guerrero, he's taken 24 semester hours, and his GPA is 1.7. Owen also meets Guerrero's satisfactory progress standards, because his GPA is higher than 1.6. Although Owen has less than a C average or equivalent at the end of his second academic year (Guerrero considers 2.0 to be the equivalent of a C average), he's still making satisfactory progress because he meets the standards required by Guerrero for graduation. However, if his GPA doesn't improve by the time he completes 30 semester hours, he'll no longer be making satisfactory progress.

First Year Progress

Credits required	21
1st semester	0
+ 2nd semester	15
= completed credits	15hrs.

Second Year Progress

Credits required	42
previous completed credits	15
+ 2nd year credits	27
= completed credits	42hrs.

First Increment Progress

Credits required	8
1st class credits	4
+ 2nd class credits	0
+ 3rd class credits	4
=completed credits	8 hrs.

Quantitative Standard Examples

Students in Bennet College's bachelor's degree program are required to complete 120 credits. Bennet requires all students to enroll in 15 credits each semester. Most students complete the program in four years (eight semesters). Bennet sets a maximum time frame of six years (150% of the published length of four years), and uses a year as an increment. Bennet requires students to successfully complete at least 21 credits by the end of the first year, and an additional 21 credits for each increment after that.

Lydia enrolls for her first year at Bennet, and fails all her courses in the first semester. Even if she successfully completes all her courses in the second semester, she won't be making satisfactory progress at the end of the first increment, because she'll have completed only 15 credits. If she continues into the second year and successfully completes all but one of her courses (27 credits total), she'll meet the satisfactory progress standards by the end of the second increment (42 credits successfully completed).

Sarven Technical Institute has a 24 semester hour program that a full-time student can complete within one year. Because many students attend part-time, Sarven decides to use a maximum time frame based on the length of the program in semester hours attempted. Using the 150% maximum, Sarven's policy states that a student must complete the program by the time he or she has attempted 36 semester hours. Sarven uses increments of 12 semester hours. In order to successfully complete 24 semester hours within the maximum time frame, the student must successfully complete 8 semester hours by the end of each increment.

Allen enrolls in this program. He enrolls in one class at a time, and each class is worth four semester hours. After he has enrolled in three classes (12 semester hours), Sarven must check to see if he's successfully completed enough work in that increment to be making satisfactory progress. Allen completes the first and third course, but fails the second. Because he completed 8 semester hours (two courses) in this increment, he's making satisfactory progress.

The school's policy must also state the minimum amount or percentage of work a student must successfully complete by the end of each increment. This amount must be high enough to allow the student to complete the program within the maximum time frame.

The school isn't required to set a fixed number of hours or credits that must be completed in each increment. Instead, the school can require the student to complete a certain percentage of the hours or credits he or she attempts. By setting a percentage rather than a fixed number of hours or credits, the school can easily adjust for differences in enrollment status from student to student or from one year to the next.

Quantitative Standard Percentage Example

A school that offers a 4-year program could allow students a maximum time frame of 6 years to complete the program. Edison College decides to allow students a maximum time frame of 5 years for its 4-year microbiology program. Edison uses the semester as the increment for measuring satisfactory progress. In order to allow students to complete the program within the maximum time frame, Edison requires students to complete 80% of the work attempted by the end of each increment (4÷5=.8).

Two students, Andrew and Malia, are enrolled in this microbiology program. In the first year, both students enroll in 15 credits per semester. At the end of the first semester, Andrew has earned 12 credits and Malia has earned 15 credits. At the end of the second semester, Andrew has earned a total of 21 credits and Malia has earned a total of 30 credits.

To be making satisfactory progress, Andrew and Malia must have completed 80% of the credits attempted by the end of the increment. For the first semester, they must complete 12 credits (80% x 15 credit hours attempted = 12 credit hours). Because both students successfully completed at least 12 credit hours in their first semester, they both were making satisfactory progress.

By the end of the second semester, they must have completed 24 credits (80% x 30 credit hours attempted = 24 credit hours). Malia is still making satisfactory progress at the end of the second semester, but because he only completed 21 credits, Andrew is not making satisfactory progress.

In the second year, Malia again enrolls for 30 credits, but Andrew only enrolls for 15 credit hours for the year. Andrew successfully completes all these credit hours, so he has earned 36 credits of 45 attempted. Malia completes 51 credits by the end of the second year.

To be making satisfactory progress by the end of the second year, Andrew must have completed 36 credits (80% x 45 credit hours attempted = 36 credit hours). Therefore, he is once again making satisfactory progress at the end of the second year. After the end of the second year, Malia must have completed 48 credit hours (80% x 60 credit hours attempted = 48 credit hours). Malia was also making satisfactory progress at the end of the second year.

First Year Progress

Credits required

completion standard	80%
x credits	30
= completed credits	24hrs.

Second Year Progress

FT student

previous attempted credits	30
+ 2nd year credits	30
x completion standard	80%
= completed credits	48hrs.

HT student

previous attempted credits	30
+ 2nd year credits	15
x completion standard	80%
= completed credits	36hrs.

A school may use a graduated completion percentage for each year of enrollment. For instance, a school can let students complete a lower percentage in the first academic year but then gradually increase the required percentage to ensure that the student completes program requirements within the maximum time frame.

At some schools (mainly clock-hour schools), a student is given credit for every hour attended, so that the hours attempted equal the hours earned. In such cases, the quantitative standard must be based on calendar time (in weeks or months).

Other Elements

A school's satisfactory progress policy must explain how withdrawals, grades of "incomplete," courses that are repeated, and noncredit remedial coursework affect the academic progress determination. A school must also establish procedures that enable the student to appeal a determination that finds him or her not to be making satisfactory progress. For students ultimately judged not to be making satisfactory progress, the school must establish specific

Calendar Time Quantitative Standard Example

Lem Community College has a 900 clock hour program that normally takes 8 months to complete. Lem allows a maximum time frame of 12 months to complete the program. Lem divides this time frame into increments of 4 months (which is half the published length of the program). In order to complete the entire program within 12 months, the student must complete 300 clock hours in each increment. Lem's satisfactory progress standards therefore require the student to attend 300 clock hours within the first 4 months (the first increment), 600 clock hours by the end of the second increment (after 8 months), and 900 hours by the end of the 12 month maximum time frame.

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procedures that enable such students to once again meet satisfactory progress standards.

The quantitative and qualitative standards used to judge academic progress must be cumulative and must include **all** periods of the student's enrollment. Even periods in which the student did not receive SFA funds must be counted. Transfer credit hours must be counted as well, so that transfer students are not given more time than other students to complete the program. A school cannot set a maximum time frame based on hours attempted and then have a policy to routinely exclude certain hours attempted, such as hours taken during a summer session, from its determinations of satisfactory academic progress.

Mitigating circumstances

A school can set aside the satisfactory standards for individual students if it determines that an unusual situation affected the student's progress. The law specifies cases in which the school might choose to set aside the standards: for example, if a student becomes very ill, if a student is severely injured, or if a student's relative dies. The school's satisfactory progress policy can include provisions to take such mitigating circumstances into account. A school that wants to set aside the normal standards due to mitigating circumstances must include in its policy an explanation of under what circumstances it will set aside the standards.

Conditional or probationary periods

A school can include a **limited** conditional or probationary period in its satisfactory progress policy. During such a probationary period, a student who didn't meet the satisfactory progress standards can still be treated as if he or she did meet the standards.

Completion of degree requirements

The school's satisfactory progress policy can state that a student who has completed all the coursework for his or her degree or certificate but hasn't yet received the degree or certificate can't receive further SFA aid for that program. This restriction can't simply be a limit on the number of hours completed (for instance, that the student isn't eligible once he or she has completed 120 semester hours for a program that requires 120 semester hours). The student must have actually completed the academic requirements for the degree or certificate he or she is pursuing. Of course, if the student enrolls in another program (seeking a different degree or certificate), this restriction would no longer apply, although the student would still have to meet other satisfactory progress standards.

SPECIAL PROGRAMS AND PROGRAM SPECIFIC REQUIREMENTS

In this section, we'll discuss some special types of programs: correspondence and telecommunications courses and study abroad. We'll also talk about some program specific requirements that apply to more than one of the SFA programs.

Mitigating Circumstances Example

Brust Conservatory has a policy to set aside the satisfactory progress standards under certain mitigating circumstances, including serious illness. Brust's policy specifies that if the student becomes seriously ill during a term, and the student can't attend classes for a month or more, then the courses for the term aren't taken into account when the school determines whether the student is making satisfactory progress. Brust requires the student to submit documentation from a doctor or other health care provider stating that the student's illness prevented him or her from attending school for at least a month.

Probationary Period Example

As part of its satisfactory progress policy, Lem Community College has a provision for academic probation. The first time a student fails to meet the satisfactory progress standards, he or she receives a notice from the school, and is put on academic probation for one term or payment period. The student can receive aid during this period, but isn't allowed to enroll more than half time. If the student doesn't meet the satisfactory progress standards at the end of the probationary term, he or she loses eligibility for any subsequent payments, until he or she meets the satisfactory progress standards again.

Correspondence Courses

A student enrolled in a correspondence course can only receive SFA funds if the course is part of a program leading to an associate, a bachelor's, or a graduate degree. This restriction means that students enrolled in preparatory coursework or a program leading to a certificate aren't eligible for aid for correspondence courses they're taking. There are also restrictions on the cost of attendance for correspondence courses; see Chapter 10 of this publication for more information.

Telecommunications Courses

Students in telecommunications courses aren't always subject to the correspondence course limitations. A student in a program offered completely or partially through telecommunications isn't considered to be enrolled in a correspondence course if the telecommunications program leads to an associate, a bachelor's, or a graduate degree from that school and the school meets certain requirements. Students enrolled in a telecommunications program of study of a year or longer that leads to a certificate also qualify for this exception, effective October 1, 1998. Reauthorization also modified the institutional requirements for this exception. To qualify, telecommunications and correspondence courses at the school must still total less than 50% of all the courses offered, but as of October 1, 1998, 50% or more of the programs offered by the school must lead to an associate, bachelor's, or graduate degree. See the *SFA Handbook: Institutional Eligibility and Participation* for more information on telecommunications courses.

Study Abroad

Students in a study-abroad program are eligible for aid if the program is approved for credit by an eligible school. To receive aid, the student must be enrolled as a regular student at the eligible school approving the study-abroad coursework. Although the home institution must accept the study-abroad coursework for credit, the coursework doesn't have to be required for the student's degree program. There also must be a contractual agreement between the home institution and the foreign school (see *SFA Handbook: Institutional Eligibility and Participation*).

Enrollment Status

The Direct Loan and FFEL programs require a student to be enrolled at least half time to receive aid. (See the Direct Loan and FFEL Programs Reference for more information on the Direct Loan and FFEL programs.) The Pell and campus-based programs don't require half-time enrollment, but the student's enrollment status does affect the amount of Pell a student receives (see the Pell Reference for information on how enrollment status affects a student's Pell award).

To be enrolled half time, a student must be taking at least half of the course load of a full-time student. As specified in the regulations, schools define the full-time workload, subject to certain minimums. The definition of full time used for SFA purposes can differ from the definition used for other purposes at the school, such as the definition used by the registrar's office.

Correspondence Course Cites
Sec. 484(k), 34 CFR 668.38

Telecommunications Course Cites
Sec. 484(l), 34 CFR 668.38

Study Abroad Cites
Sec. 484(o), 34 CFR 668.39

Half-time Enrollment Requirement Cites
Sec. 428(b)(1)(A), 34 CFR 668.32(a)(2)

Full-time Student Definition Cite

34 CFR 668.2

Mixed Credits Enrollment Example

Stanislaw is enrolled in a program at Lem Community College. In the first term, Stanislaw is taking 6 semester hours and 3 quarter hours and is also taking 9 clock hours a week. To determine if Stanislaw is enrolled full-time, Lem divides the amount of each type of hour by the minimum requirement for full time, and then adds the fractions:

6/12 + 3/12 + 9/24= .5 + .25 + .375 = 1.125

Because the result is greater than one, Stanislaw is enrolled full time.

Noncredit or Reduced-Credit Cite

34 CFR 668.20

The school's definition of a full-time workload for a program must be used for all students enrolled in that program and must be the same definition for all SFA-related purposes, including loan deferments. The school can't accommodate a student with a learning disability or other handicap by allowing the student a full-time enrollment status lower than the minimum standard.

Minimum standard for full-time

The school may include any combination of courses, work, research, or special studies in its definition of workload. The regulations specify a minimum standard for undergraduate students, but not for graduate students. For undergraduate students, the school must define full-time status to meet at least the following minimums:

- 12 semester hours or 12 quarter hours per academic term in an educational program using a semester, trimester, or quarter system;
- 24 semester hours or 36 quarter hours per academic year for an educational program using credit hours but not using a semester, trimester, or quarter system, or the prorated equivalent for a program of less than one academic year;
- 24 clock hours per week for an educational program using clock hours;
- for a student who is taking a combination of courses offered using different types of hours, prorated percentages of the minimums for credit- and clock-hour measurements equal to at least one;
- a series of courses or seminars equaling 12 semester or quarter hours over a maximum of 18 weeks; or
- the work portion of a cooperative education program in which the amount of work performed is equivalent to the academic workload of a full-time student.

A student taking only correspondence courses is never considered to be enrolled more than half time.

If a student is enrolled in courses that do not count toward his or her degree, those hours cannot be included in his or her enrollment status for the purpose of determining whether the student is half time or full time.

Noncredit or reduced-credit coursework

Some schools offer remedial classes for which they give no credit, or reduced credit. A student can receive aid for a limited amount of remedial coursework that is included as part of a regular program. As long as the student qualifies for aid for remedial courses, the school needs to include the remedial courses in the student's enrollment status. To do so, the school must determine how many credit or clock hours the remedial course should be counted as. The school must determine the number of hours of study that the remedial course requires (both classroom and homework hours) and must compare that number with the hours required for similar nonremedial courses. The school should use the same number of credits for the remedial course as for a nonremedial course that requires the same amount of work. (Clock-hour schools should use the number of classroom hours attended in the remedial program.)

To determine a student's enrollment status, a school should add the credits or clock hours assigned to the noncredit course to the credits or clock hours of regular coursework.

Incarcerated Student Cites
Sec. 401(b)(8), Sec. 484(b)(5), 34 CFR 668.32(c)(2)

Incarcerated Student

If a student is incarcerated, he or she is ineligible for an SFA loan. In addition, the student can't receive a Pell if he or she is incarcerated in any federal or state penal institution (see the Pell Reference for more information).

Incarcerated students are eligible for FSEOGs and FWS.

New match

In 1999-2000, the Department plans to add a new match with the Social Security Administration (SSA) to identify incarcerated students. SSA maintains a Prisoner's File, which has information about incarcerated individuals. Although the details of the match aren't final, SSA will probably provide two pieces of information to the CPS: whether or not the student is incarcerated, and, if the student is incarcerated, what type of facility (federal, state, etc.) he or she is incarcerated in. When the details are available, the Department will be providing more information on this match on the IFAP web site.

Citizenship

CHAPTER 2

A student has to be a citizen or eligible noncitizen to receive SFA aid. In this chapter, we discuss what citizenship statuses meet this requirement, and how a student documents his or her citizenship status.

ELIGIBLE CATEGORIES

A student must be a citizen or eligible noncitizen to be eligible for aid from the SFA Programs. The general requirement for eligible noncitizens is that they be in the U.S. for other than a temporary purpose. The specific eligible statuses are:

- A U.S. citizen or national.
- A U.S. permanent resident.
- Citizens of certain Pacific Islands (the Freely Associated States).
- Other eligible noncitizens.

The Department performs matches through the application process to verify the student's status. In addition, there are procedures for a school to follow to confirm a noncitizen's status through INS if the CPS matches don't confirm that status.

Students who are eligible because they are citizens of certain Pacific Islands can only receive aid from some of the SFA programs (see "Citizens of the Freely Associated States," page 49). Students in the other categories are eligible for any type of aid through the SFA Programs if they're attending an eligible school in the United States. If attending foreign schools that participate in the FFEL Program, these individuals may receive FFELs. If a parent wants to take out a Federal PLUS Loan for a dependent undergraduate student, both the parent and the student must be U.S. citizens or nationals, permanent residents, or eligible noncitizens.[2]

Citizenship Cites

Sec. 484(a)(5), 34 CFR 668.32(d), 668.33, and Subpart I of Part 668.

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[2] Note that the Department doesn't check a parent's citizenship status as part of the application process. Parents who are permanent residents or other eligible noncitizens should provide documentation of that status to the school.

Documenting Citizenship Cite
34 CFR 668.33(c)

Match Flag for Successful Match
A or blank

Match Flag for No Match
N

Comment for No Match
62

Data doesn't Match Example
Allen put in an incorrect number for his SSN when he completed his FAFSA. The number he used isn't in the SSA database. Therefore, his application fails both the SSN match and the SSA citizenship match. Allen will need to fix the problem before he can receive aid. Because the SSN is incorrect, Sarven Technical Institute asks Allen to complete a new FAFSA instead of making a correction (see Chapter 4 for more on fixing SSN problems).

U.S. CITIZEN OR NATIONAL

The term "U.S. citizen" includes citizens of the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and the Northern Mariana Islands. All U.S. citizens are considered to be U.S. nationals. However, not all nationals are U.S. citizens: Natives of American Samoa and Swain's Island are not U.S. citizens but are nationals and therefore may receive SFA funds.

SSA citizenship match

All applications automatically go through the Social Security Administration (SSA) matching system, which verifies both U.S. citizenship status and Social Security Numbers (SSNs) (see Chapter 4 of this publication for information on the SSN match). The result of the SSA citizenship match is reported as "SSA" (on the ISIR) or "SSA Citizenship Code" (on the SAR) in the FAA Information section of the output document.

If the student leaves the citizenship question on the FAFSA blank, the CPS will still attempt the citizenship match. If there was a complete match with the student's SSN, name, date of birth, and U.S. citizenship, the CPS will assume the student is a citizen. The CPS will reject the application (for insufficient information) if one of the items did not match, or if the SSA match shows the student is not a citizen.

Note that U.S. citizens born abroad might fail the SSA citizenship match unless they have updated their citizenship information with the SSA (see "Updating Status for Citizens Born Abroad," page 32).

Successful match

There's no comment on the output document if the match is successful. Once all four SSA match elements (SSN, citizenship, name, date of birth) have been confirmed, the SSA Citizenship Flag will be carried forward to the next year's Renewal Application and the match will not need to be performed again in subsequent years (unless the student changes any of the match elements on a later application).

Data doesn't match

If SSA can't find a match in its database for the student's SSN, name, or date of birth, then it can't provide information about the student's citizenship. There will be a comment on the output document stating that SSA could not confirm citizenship because of a question about these items. The student will also have a problem with the SSN match in this case. The student should make the necessary corrections to the SSN, name, or date of birth (see Chapter 4 of this publication for a discussion of SSN match problems). When the corrections are sent to the CPS, the CPS performs the match again, and the school should check the new results to see if SSA confirmed the student's citizenship.

If the school and student have resolved the SSN problems, but still can't get the student's citizenship confirmed, the student can instead provide documentation of citizenship. See "Other Documentation" for a list of documentation the school can decide to accept.

Citizenship not confirmed

If the SSA didn't confirm that the student is a citizen, a comment will be provided explaining that the student either needs to provide documents proving citizenship or make a correction to show that he or she is an eligible noncitizen.

If the student is a citizen, he or she must give the school documentation of his or her citizenship status. If the student submits appropriate documents, the school can disburse aid to the student. Note that, unlike documentation for eligible noncitizens, the school doesn't submit these documents to the INS, or any other agency, for verification. The school does need to keep a copy of the documents in the student's file. The student might also want to contact SSA to have it update its database, but doesn't have to do this to receive aid. See "Other Documentation" for a list of possible documentation.

If the student is an eligible noncitizen, he or she must submit a correction, which must include the A-Number. When the correction is sent in, the CPS will attempt a match with INS to confirm the student's status (see "INS match," page 34).

Other Documentation

If a student must document his or her status as a citizen or national, the school decides what it considers acceptable documentation. The Department doesn't specify what documentation is acceptable. However, the following are some types of certification the school might choose to use:

- A copy of the student's birth certificate showing that he or she was born in the United States.

- A copy of Form FS-240 ("Report of Birth Abroad of a Citizen of the United States"), the FS-545 ("Certificate of Birth-Foreign Service"), the DS-1350 ("Certificate of Birth"), or the INS Form G-639 (the Freedom of Information Act Form). The first three forms are generated by the State Department and include an embossed seal with the words "United States of America" and "State Department."

- A U.S. passport, which may be current or expired. (In the case of nationals who are not citizens, the passport will be stamped "Noncitizen National.")

- A Certificate of Citizenship from the INS. This certificate must include at least the following information:

    Δ the student's name,
    Δ the certificate number (found in the upper right hand corner), and
    Δ the date the certificate was issued.

Match Flags for Citizenship not Confirmed

*B, C, D, E, F **

Comment for Citizenship not Confirmed

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Citizenship not Confirmed Example

Chavo is a U.S. citizen, but SSA doesn't confirm his citizenship status. Sarcen Technical Institute asks him to submit documentation of his status. Chavo first submits a Social Security card, but Sarcen explains that the card doesn't document his status because noncitizens can have Social Security cards. Chavo then brings in his U.S. passport. Sarcen makes a copy of the passport for its files, and tells Chavo his citizenship has been documented. Sarcen also advises Chavo to have the SSA correct its database, so that he won't have this problem again.

Social Security Card and Driver's License

A Social Security card or driver's license isn't acceptable for documenting citizenship or national status. Noncitizens and nonnationals can also have these forms of identification.

- A Certificate of Naturalization from the INS. This certificate must contain at least

    Δ the student's name,
    Δ the certificate number (found in the upper right hand corner),
    Δ the INS A-Number,
    Δ the name of the court that granted the naturalization, and
    Δ the date of naturalization.

Older versions of the Certificate of Citizenship and of the Certificate of Naturalization advise the holder not to photocopy them. The INS, however, permits photocopying of these documents if done for lawful purposes (such as applying for SFA funds).

Updating Status for Citizens Born Abroad

Even though students are considered U.S. citizens when born abroad to parents who are U.S. citizens, the SSA database is not automatically updated to indicate the student's status even if the student's birth was registered. Therefore, such students (for example, those born on military bases abroad) will fail the SSA citizenship match until the SSA database is corrected. That is, the applications of U.S. citizens who were born abroad but who file as U.S. citizens are automatically flagged by the SSA as ineligible foreign born, even if the applicant has an SSN.

Such students can document citizenship by providing a "Certificate of Birth Abroad." If the birth of the student was (before he or she reached age 18) registered with the American consulate or embassy in a foreign country, the student can receive a copy of the certificate by contacting

Department of State
Passport Correspondence Branch
1111 19th St. S.W., # 510
Washington, DC 20522-1705
202-955-0737

The student should provide the following information: Name given at birth; date and place of birth; daytime phone number; parents' names and their dates and place(s) of birth; and a $10 check or money order made to the Department of State. Students will receive either form FS-240 or DS-1350. This process takes four to eight weeks. The student might also want to contact SSA about updating its database.

If the student's over 18 and the birth wasn't registered, he or she can file a self-petition for a "Certificate of Citizenship" to any local U.S. INS office (Form N-600). Proof of the parents' U.S. citizenship at the time of the student's birth must be provided.

SSA Citizenship Match

Result	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
SSA confirmed citizenship status		A or blank	No comment	None
SSA did not confirm citizenship status	B, C, D, E, F, or *	C code	146 We sent your application to Social Security Administration (SSA) to verify your citizenship status. The SSA did not confirm that you are a U.S. citizen. You need to provide your school with documentation of your citizenship status before you can receive Federal student aid. If you are an eligible noncitizen, you must correct Item 14 on this SAR and provide your Alien Registration Number if necessary.	If the student is a U.S. citizen, he or she should provide documentation (see "Other Documentation," page 31). If the student is an eligible noncitizen, he or she should correct Item 14 and provide a valid A-Number. If the student is then successfully matched with INS as an eligible noncitizen, no further resolution is necessary.
SSA could not confirm citizenship status because there was no match on SSN, name, or date of birth	N	C code	062 In addition, the Social Security Administration could not confirm your claim of U.S. citizenship because of questions about your social security number, name, or date of birth.	Make any necessary corrections to SSN, name, or date of birth so record can be sent back for matching. Review subsequent transactions for the updated match results. If the student believes the information originally reported is correct, he or she should contact SSA so that it may update its database. The school may pay the student if it receives documentation of the student's citizenship status (see "Other Documentation").

U.S PERMANENT RESIDENTS AND OTHER ELIGIBLE NONCITIZENS

A permanent resident is a noncitizen who is legally permitted to live and work in the United States permanently. Other eligible noncitizens include

- **Refugees.** This status is considered temporary, although refugees can apply for permanent residence;

- **Persons granted asylum.** Persons who have been granted asylum in the United States are given employment authorization for one year. At the end of that year, they are eligible to apply for permanent residence. Asylum status continues unless revoked by INS or until permanent residence status is granted.

- **Conditional entrants.** These individuals are refugees who entered the United States under the seventh preference category of P.L. 89-236 or whose status was adjusted to lawful permanent-resident alien under that category. Note that INS stopped using this category on March 31, 1980.

- **Persons paroled into the U.S. indefinitely for humanitarian reasons.** These individuals are allowed to enter the United States under emergency conditions or under the determination that their entry is in the public interest. This status is temporary.

- **Cuban-Haitian entrants.**

Some noneligible statuses are:

- **Family unity status.** Such individuals have been granted relief from deportation under the Family Unity Program. Previously they were eligible for SFA funds.

- **Temporary residents.** These individuals are allowed to live and work in the U.S. under the Legalization or Special Agricultural Worker program. Previously they were eligible for SFA funds.

- **Individuals with nonimmigrant visas.** This includes those with work visas, and students, visitors, and foreign government officials.

INS match

To verify the citizenship statuses of U.S. permanent residents and other eligible noncitizens, the Department collects Alien Registration Numbers (A-Numbers) on the FAFSA. (The INS assigns A-Numbers to all legal immigrants.) If the applicant indicates on the FAFSA that he or she is an eligible noncitizen and provides an A-Number, identifying information from the FAFSA is automatically sent to the INS for confirmation. This verification process, performed by the INS, is known as "Primary Confirmation."[1]

The results of the match are shown by a match flag in the FAA Information section of the output document, under the heading "INS" (on the ISIR) or "INS Match Flag" (on the SAR). There will also be a comment about the results on the output document.

Because all applications are sent to the SSA match, an application that undergoes the INS match will also undergo the SSA citizenship match. Results from the INS match take precedence over any results from the SSA citizenship match. Therefore, in cases where the INS match is conducted, the SSA citizenship match flags aren't on the output document, and the school should follow the usual procedures for resolving any INS match discrepancies.

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[1] Although we use the word "verification," this process is not related to the Department's verification requirements, which are discussed in Chapter 8.

Note that if a student leaves the citizenship question blank but provides an A-Number, the CPS will assume the applicant is an eligible noncitizen and will forward the A-Number to the INS to confirm eligibility. If the student leaves both the citizenship question and A-Number blank, the CPS won't attempt the match with the INS, although as mentioned earlier it will match with SSA. If the student isn't a citizen, the application will be rejected, and the student must submit a correction with the correct citizenship status and an A-Number if he or she is an eligible noncitizen.

Reject Code and Comment Number if Noncitizen Leaves All Citizenship Information Blank
Reject 17, Comment 68

INS Verification Number

When an INS match is conducted, a 13-digit INS Verification Number is assigned to the student and printed in the FAA Information section. The school will need this number if it has to check the student's status through the secondary process the Department has with the INS (see "Secondary Confirmation"). Note that if no INS match can be made because a student failed to provide an A-Number on the application, that student won't receive an INS Verification Number. The student's information should be resubmitted with the A-Number so that a computer match may be attempted, because the school won't be able to check the student's status through the secondary process unless it has an INS Verification Number.

Match Flag for Successful Match
Y

Comment for Successful Match
141

Successful match

If the INS confirms the student's citizenship status through the match, then the student can receive aid. The output document with the successful match results is documentation of the student's eligible status. Of course, if the school has other information about the student's status that seems to contradict the successful match result, it must resolve the conflicting information before paying the student (see "Conflicting Information" in the Introduction to this publication).

Comment for Not Enough Information
142

Not enough information

If the student said he or she was an eligible noncitizen but didn't provide an A-Number, or the A-number was illegible or invalid, the match won't be attempted. Instead, the student will receive a comment explaining that there's a question about the A-Number, and directing the student to provide documentation of his or her eligibility to the school. The student will need to submit a correction with the correct A-Number, so that the match can be conducted. The school can't use Secondary Confirmation to confirm the student's status.

Note that citizens of the Marshall Islands, the Federated States of Micronesia, and Palau will get the same comment because such students won't have A-Numbers to report. However, these students aren't required to provide proof of eligible noncitizen status (see "Citizens of the Freely Associated States," page 19).

INS Match

Result	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
Student's eligible non-citizen status confirmed by INS	Y		143 Your citizenship status has been confirmed by the Immigration and Naturalization Service (INS), and you meet the citizenship requirements for Federal student aid.	None
Match not conducted because student did not provide enough information (including a valid A-Number)	blank	C code	142 The Immigration and Naturalization Service (INS) could not confirm your statement that you are an eligible noncitizen because there is a question about your alien registration number. You must submit proof of your noncitizen eligibility to your school within 30 days after you give this SAR to your school. If you fail to submit proof within 30 days, you may be found ineligible for Federal student aid.	The student should make corrections to provide the missing information. When the corrections are submitted, the application will be matched with the database; the school should check the new output document for match results. This comment will also appear for certain non-citizens not required to have A-Numbers (see "Citizens of the Freely Associated States," page 49).
INS did not confirm student's eligible non-citizen status	N	C code	144 The Immigration and Naturalization Service (INS) did not confirm your statement that you are an eligible noncitizen. You must submit proof of your noncitizen eligibility to your school within 30 days after you give this SAR to your school. If you fail to submit proof within 30 days, you may be found ineligible for Federal student aid.	Secondary Confirmation required (see "Using the G-845S for Secondary Confirmation," page 41).

Match Flag for No Confirmation
N

Comment for No Confirmation
144

Status not confirmed

If the match was conducted, but the INS didn't confirm the student's status, the school must resolve the discrepancy before paying the student. Although the student isn't automatically ineligible for SFA funds, additional procedures may be necessary to document the student's eligibility. This subsequent process is called Secondary Confirmation.

The student will have a comment on the output document explaining that his or her status wasn't confirmed. The comment also tells the student to submit documentation to the school. The school

INS Match (continued)

Result	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
Match not conducted because student did not indicate citizenship status	blank	Reject 17	068 You did not indicate on your application that you are a U.S. citizen or an eligible noncitizen. To be eligible to receive Federal student aid, a student must be-- (1) A U.S. citizen (or U.S. national), or (2) An eligible noncitizen, such as a U.S. permanent resident or a resident of certain Pacific Islands, or (3) An eligible noncitizen as determined by the Department of Education	If student failed to indicate citizenship, citizenship match with SSA was still conducted. If that match confirmed the student's citizenship, the application will not be rejected, and no resolution is required, although the student should make a correction to indicate he or she is a citizen or national. If SSA did not confirm the student's citizenship, the student receives Reject 17 and resolution is required. The student should provide correct information on his or her citizenship status in Item 14. The student should also provide an A-Number if he or she is an eligible noncitizen. The student's record can then be sent through the INS match; the school should review the INS match flags on the new output document.
Match not conducted because student changed status from eligible noncitizen to citizen or changed confirmed A-Number	blank	C code	141 You changed your response to citizenship or you changed the alien registration number verified with INS. You must submit proof of your citizenship status to your FAA.	The school must determine why the student made the change and resolve any conflicting information. The student may need to submit proof of citizenship, depending on the reason for the change.

can use this documentation to perform Secondary Confirmation. However, if the student submitted incorrect information on the application, the student may instead make a correction so that the CPS can attempt the match again.

Status not Confirmed Example

On his original application, Hector reported that he was a citizen, and didn't report his A-Number. When SSA didn't confirm this, he told the FAA at Guerrero University that he was a permanent resident. Hector made a correction, but the INS didn't confirm his status as an eligible noncitizen. This time, he explained to the FAA that he had applied for permanent resident status, but didn't have documentation yet. The FAA told him that when he had documentation that his application was approved, he should bring it to Guerrero, so that it could be submitted to the INS for confirmation.

Conditions Requiring Secondary Confirmation Cite

34 CFR 668.133(a)

Use of Copy of I-94

Note that a refugee or an asylee may apply for permanent-resident status. During the period in which the application is being reviewed, the student must surrender his or her original I-94 to INS. INS will give the student a copy of the original I-94, which will include the endorsement "209a (or 209b) pending. Employment Authorized." Students with this form of documentation are eligible for SFA funds.

Documentation for Cuban-Haitian Entrants

The I-94 for some Cuban-Haitian entrants who are applying for permanent residence may be stamped "applicant for permanent residence." (Or the student may instead be given a separate document acknowledging the receipt of his or her application for permanent residence.) Because the application for permanent residence is not sufficient to make a student eligible for SFA funds, a student who is a Cuban-Haitian entrant must request documentation of that status from INS.

Secondary Confirmation

If the INS can't confirm a student's claim to be an eligible noncitizen or a school has conflicting information about a student's citizenship status, the school has to use a secondary process to confirm the student's status. The student has to give the school documentation showing that he or she is an eligible noncitizen. If this documentation doesn't seem to provide reasonable evidence that the student is an eligible noncitizen, the school can determine that the student isn't eligible for SFA funds. However, if the student provides documentation that appears to demonstrate that he or she is an eligible noncitizen, the school submits the documentation to the INS to confirm that the documentation is valid. This collection and submission of additional material is known as "Secondary Confirmation."

Acceptable Documents

The standard documentation for a permanent resident of the United States is the Alien Registration Receipt Card (Form I-151 or Form I-551). Both forms are referred to colloquially as "green cards," although the newly issued forms are most often white with blue or pink wavy lines. The INS is replacing cards issued before 1979 with these new, counterfeit-resistant cards. The deadline established for permanent residents to replace their old cards was March 20, 1996. However, the older Form I-151 cards remain acceptable as evidence of permanent residence for the purpose of receiving SFA funds. A passport or a Departure Record (Form I-94) is also acceptable if it has one of the following stamps:

- A passport or I-94 stamped "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until ____________. Employment Authorized."

- An I-94 stamped "Temporary Form I-551. Admission for permanent residence at ______________[port] on ______________ [date] verified. ________________ [signature of issuing officer] _________ [title]." This I-94 will also contain the individual's photo and an INS seal over the photo and the stamp.

For other types of eligible noncitizens, evidence of their status is on the I-94. The I-94 will contain one of the following:

- **Refugees.** A stamp reading either "Admitted as a Refugee Pursuant to Section 207 of the Act. If you depart the United States you will need prior permission to return. Employment Authorized," or "Status changed to refugee pursuant to Section 207 (c)(2) of the Immigration Nationality Act, on __________. Employment Authorized." Refugees may also have a Refugee Travel Document (Form I-571), which can be used for documentation if it's unexpired.

- **Asylees.** A stamp reading "Asylum status granted pursuant to Section 208, INS. Valid to ______________. Employment Authorized."

- **Conditional entrants.** A stamp indicating that the student has been admitted to the United States as a conditional entrant. Because INS stopped using this category on March 31, 1980, a school that doesn't hear from the INS within the permissible time frame shouldn't disburse to a student who shows an I-94 with conditional-entrant status granted after March 31, 1980.

- **Parolees.** A stamp indicating that the student has been paroled into the United States for an indefinite period of time for humanitarian reasons. The word "indefinite" and/or "humanitarian" will be handwritten into the stamp.

- **Cuban-Haitian entrants.** A stamp across the face of the I-94 indicating that the student has been classified as a "Cuban-Haitian Entrant (Status Pending). Reviewable January 15, 1981. Employment authorized until January 15, 1981." Note that a document showing that the holder is a Cuban-Haitian entrant is valid even if the expiration date would make the document appear to be no longer valid.

Each of the documents described above will be stamped in a rust-colored ink. It will normally contain a validation indicating the office of issuance and a code that indicates what officer prepared the document. Examples of codes are "WAS-82" (Washington District Office, Officer Number 82) or "1/13/84 SPO.KD" (Spokane Office, officer's initials KD).

The school must keep in the student's file a copy of the citizenship documentation the student submits, along with the Secondary Confirmation results received from the INS. Documentation provided as proof of the student's citizenship status (such as the I-551 and I-94) may legally be photocopied by the student, as long as the photocopies are made for this lawful purpose. The student must understand that he or she is permitted to photocopy an INS document **only** for lawful purposes such as applying for SFA funds. (Document photocopying is generally not permitted even for other purposes.)

FAAs must always examine and copy original documents. Sometimes the endorsement (a stamp) does not photocopy well due to the ink color on the original document. In this case, the financial aid administrator should hand copy the exact endorsement on the photocopy. Because the endorsement can be placed anywhere on the I-94, the endorsement may be difficult to locate. Note that although the endorsement may appear on the student's passport, the endorsement **must also** be on the I-94. INS offices don't have uniform procedures or stamps. The school should contact the local INS office with questions regarding acceptable citizenship documentation.

Special circumstances

If the student has an I-551 with a baby picture, he or she should update the I-551 with INS. Permanent residents are expected to get a new picture and be fingerprinted at the age of 14. However, the school can submit the documents to INS and

Jay Treaty

There is one unusual circumstance where the school will need to collect documentation from the student but not submit it to the INS for Secondary Confirmation. The Jay Treaty of 1794 (as well as subsequent treaties and U.S. immigration law) gives Canadian-born Native Americans with "50% Indian blood" the legal right to live and work in the United States. Such individuals are not subject to the legal restrictions typically imposed on aliens by the INS, are not required to obtain documentation from the INS, and are considered "lawfully admitted for permanent residence."

Because few SFA applicants are eligible under the Jay Treaty, the FAFSA does not include a separate response for such students. Therefore, any student eligible for SFA funds through the Jay Treaty should report that he or she is an "eligible noncitizen" and fill in "A999999999" for the A-Number. The application will not be matched with INS, and a comment (comment 142) will be printed on the output document. The school must obtain proof that the student has 50% Native American blood and was born in Canada. To do so, the student should provide one or more of the following documents:

- *A "band card" issued by the Band Council of a Canadian Reserve, or by the Department of Indian Affairs in Ottawa.*

- *Birth or baptism records.*

- *An affidavit from a tribal official or other person knowledgeable about the applicant's or recipient's family history.*

- *Identification from a recognized Native American provincial or territorial organization.*

If the student can provide one of the above forms of documentation, and is otherwise eligible, the school must document the file and can award SFA funds.

ultimately pay a student who has an I-551 with a baby picture, as long as the school can confirm that the I-551 belongs to the student. The school can confirm this by comparing the I-551 to a current photo ID that has the student's name, date of birth, and signature. (The current photo ID must also be consistent with any identifying information in the student's file at the school.)

A student who has an approved application for permanent residence on file with INS and who is waiting for an Alien Registration Receipt Card may not have proof of his or her citizenship status. The student should contact his or her local INS office for the passport stamp or I-94 stamp described on page 38, as these are available to the student before the normal permanent-residency documentation is issued. Note that an **application** for permanent-resident status is not sufficient for determining eligibility for SFA funds.

The Marriage Fraud Amendments established a two-year conditional permanent-residence status for certain alien spouses and their children. The alien spouse of a U.S. citizen or legal immigrant is given conditional permanent-residence status if the marriage took place less than two years before the spouse applied for permanent-residence status or citizenship. This status may also apply to any of the spouse's children who are aliens.

An alien who is granted conditional permanent-residence status will be given a Form I-551. This form is the same I-551 that is issued to regular permanent residents, except that the card will have a "C" (for "conditional") on the front and an expiration date on the back. Once the two-year period expires, a conditional permanent resident must file a petition for removal of this restriction within 90 days after the end of that period. The alien's petition will then be reviewed. If the results of the review are satisfactory, the restriction will be dropped, and new documents will be issued. Conditional permanent residents holding an I-551 with a valid expiration date are eligible to receive aid under the SFA Programs.

If a person is applying to suspend deportation, he or she must request a hearing before an Immigration Law judge who will render an oral or written decision. If the decision is favorable, the INS will give the applicant a Form I-551, which will certify his or her lawful permanent-resident status. Therefore, there is no special category for persons who have been granted suspensions of deportation.

Documents showing noneligible statuses

If the document a student submits is for a noneligible status, the school shouldn't submit the documentation for Secondary Confirmation. The INS can only confirm whether or not the documentation is genuine; it doesn't determine whether the student is eligible for SFA aid. Unless the student can submit documentation for an eligible status, as described above, the student can't receive aid.

An approved Form I-797, "Application for Voluntary Departure Under the Family Unity Program," indicates that the student has been granted relief from deportation under the Family Unity Program. Students with this status are no longer eligible for SFA aid.

The Immigration Reform and Control Act of 1986 (IRCA) established a legalization program (also called the amnesty program) for certain illegal aliens. The alien might eventually be granted permanent resident status. Although these individuals were given documentation that allowed them to work while their application was being processed, they aren't eligible for SFA aid until their application for permanent resident status is approved. Documents such an individual might have in the interim are the Employment Authorization Card (Form I-688A), Employment Authorization Documents (Form I-688B or the I-766), or the Temporary Resident Card (Form I-688). None of these documents qualify the student for SFA eligibility.

A student with a nonimmigrant visa isn't eligible for SFA funds unless he or she has a Form I-94 with one of the endorsements listed earlier. Nonimmigrant visas include the F-1, F-2 or M-1 Student Visa, B-1 or B-2 Visitor Visa, J-1 or J-2 Exchange Visitors Visa, H series or L series Visa (which allow temporary employment in the U.S.), or a G series Visa (pertaining to international organizations). Also, someone who has only a "Notice of Approval to Apply for Permanent Residence (I-171 or I-464)" cannot receive SFA funds.

Some students may present Forms I-94 stamped "Temporary Protected Status." This status is used for persons who are from countries that are in upheaval, but the status differs significantly from "Refugee" or "Asylum" because it provides no conversion to permanent-resident status. A student with this status is **not** eligible for SFA funds.

Using the G-845S for Secondary Confirmation

To initiate Secondary Confirmation, the school must complete a Form G-845S. The G-845S ("Document Verification Request") is a standard INS form that is used to ask the File Control Office at INS to confirm that a noncitizen's documentation is valid. A copy of the G-845S is on pages 43 and 44.

To complete the G-845S, fill in each item on the top half of the form. The A-Number is provided in the first item; "Education Grant/Loans/Work Study" must be marked in Box 8, "Benefits." The FAA must state his or her name as the submitting official and the school's name as the submitting agency. Under Item 6, "Verification Number," the school must provide the 13-digit number that is located in the FAA

Information section with the match flags. Secondary Confirmation requests sent to INS without Verification Numbers will be returned unprocessed.

Photocopies of the front and back sides of the student's citizenship document must be attached to the Form G-845S. Be sure to submit each pertinent visa and document along with the G-845S. The G-845S is used only to certify the authenticity and identity of immigration documents attached to it; the G-845S can't be submitted to INS by itself for determining a student's eligibility for SFA funds. A student who has lost documents or surrendered these documents when entering prison is responsible for obtaining copies of these documents before the G-845S is submitted. (See "Replacing Lost INS Documents," page 50.) Schools can request copies of immigration documents directly from penal institutions at the request of the student. The school must send the completed G-845S and attachments to the File Control Office serving its locale no more than 10 business days after receiving the documentation from the student.

A status-verifier at the District INS Office will search the student's record to confirm his or her immigration status. The status-verifier at the INS office completes the "INS Response" section of the G-845S and sends it back to the school, generally within 10 working days of receipt. The Department recommends that the school document its mailings to INS. If the school hasn't heard from INS, it might want to call the INS office to make sure that the G-845S was received. If the school doesn't receive a determination from INS within 15 working days (10 working days plus 5 days mail time) of the date the school sent the G-845S, the FAA should review the file to determine whether he or she feels the student meets the citizenship eligibility requirements based on the documentation the student provided and the information in this chapter. If the FAA believes that the student meets the requirements, the school can make any disbursement for which the student is otherwise eligible; the school, however, must note in the student's file that INS exceeded the time allotment and, thus, citizenship eligibility was determined without the benefit of INS verification.

When Secondary Confirmation results in an eligible status, the school must keep the G-845S. If a discrepancy is discovered as a result of the INS response, the school must notify the student that he or she must correct the discrepancy with INS and that no certification of loans or further disbursement of funds can be made until the discrepancy is corrected. If the discrepancy isn't reconciled with INS, the student must repay all aid except wages earned under FWS. Whenever the student is able to provide new information, it must be submitted to INS on a new G-845S.

As long as the school has followed the procedures outlined here, including notifying the student of the discrepancy and withholding further payments and loan certifications as soon as a discrepancy is

Elimination of Verification Number Exception

In previous years, if the INS match failed due to processing problems, the student's output document would have no Verification Number, but the school would need to perform Secondary Confirmation to verify the student's status. In those cases, schools were allowed to send a G-845S for Secondary Confirmation without the Verification Number, as long as they noted the specific comment associated with the processing failure (Comment 145) on the G-845S. Beginning with the 1999-2000 award year, the processing failure results and comment have been eliminated, because the Department has set up the processing system to prevent match failures in individual cases. Therefore, schools must provide a Verification Number on every G-845S it sends to INS. Note that the Department will notify schools if there are general problems with or changes to any of the matches.

Procedure Requirements Cite
34 CFR 668.135

Determining Eligibility if INS Response is Late Cite
34 CFR 668.136(c)

OMB #1115-0122

U.S. Department of Justice
Immigration and Naturalization Service

SAVE

Document Verification Request

Section A - *to be completed by the submitting agency.*

To: Immigration and Naturalization Service

From: Typed or Stamped Name and Address of Submitting Agency

Attn: Status Verifier

(INS may use above address with a #10 window envelope.)

1. Alien Registration or I-94 Number
2. Applicant's Name (*Last, First, Middle*)
3. Nationality
4. Date of Birth (*Month/Day/Year*)
5. Social Security Number
6. Verification Number
7. ☐ Photocopy of Document Attached
   (*If printed on both sides, attach a copy of the front* *__and__* *of the back.*)
   ☐ Other Information Attached (*Specify documents*)

8. (*Benefit*)	(*Your Case Number*)
☐ AFDC	
☐ Education Grant/Loans/Workstudy	
☐ Food Stamp	
☐ Housing Assistance	
☐ Medicaid/Medical Assistance	
☐ Unemployment Insurance	
☐ Employment Authorization	
☐ **Other** (*specify*)	

9. Name of Submitting Official
10. Title of Submitting Official
11. Date
12. Telephone Number

Section B - *to be completed by INS*

INS RESPONSE: From the documents or information submitted and/or a review of our records we find that:

1. ☐ This document appears valid and relates to a **Lawful Permanent Resident alien** of the United States.
2. ☐ This document appears valid and relates to a **Conditional Resident alien** of the United States.
3. ☐ This document appears valid and relates to an alien **authorized employment** as indicated below:
   a. ☐ Full-Time
   b. ☐ Part-Time
   c. ☐ No Expiration (Indefinite)
   d. ☐ Expires on
   (*specify Month/Day/Year, below*)
4. ☐ This document appears valid and relates to an alien who has an application pending for
   (*specify INS benefit below*)
5. ☐ This document relates to an alien having been **granted asylum/refugee** status in the United States.
6. ☐ This document appears valid and relates to an alien **paroled** into the United States pursuant to Section 212 of the I&N Act.
7. ☐ This document appears valid and relates to an alien who is a **Cuban/Haitian entrant**.
8. ☐ This document appears valid and relates to an alien who is a **conditional entrant**.
9. ☐ This document appears valid and relates to an alien who is a **nonimmigrant**
   (*specify type or class below*)
10. ☐ This document appears valid and relates to an alien **not authorized employment** in the United States.
11. ☐ Continue to process as legal alien. INS is searching indices for further information.
12. ☐ This document is **not valid** because it appears to be (*check all that apply*):
    a. ☐ Expired
    b. ☐ Altered
    c. ☐ Counterfeit

INS Stamp

☐ **Please see reverse for additional comments.**

Form G-845S (Rev. 06/06/89) Y

BEST COPY AVAILABLE

Comments

13. ☐ No determination can be made from the information submitted. Please obtain a copy of the **original** alien registration documentation and resubmit.

14. ☐ No determination can be made without seeing **both** sides of the document submitted *(please resubmit request).*

15. ☐ Copy of document is not readable *(please resubmit request).*

"PRUCOL"

For Purposes Of Determining If Alien Is Permanently Residing Under Color Of Law Only'

16. ☐ INS actively pursues the expulsion of an alien in this class/category.

17. ☐ INS **is not** actively pursuing the expulsion of an alien in this class/category, at this time.

18. ☐ Other

Instructions

- **Submit copies of both** *front and back* **of alien's original documentation.**
- **Make certain a** *complete return address* **has been entered in the "From" portion of the form.**
- The Alien Registration Number ("A" Number) is the letter "A" followed by a series of (7) or (8) digits. Also in this block may be recorded the number found on Form I-94. (Check the front and back of the I-94 document and if the "A" Number appears, record that number when requesting information instead of the longer admission number as the "A" Number refers to the most integral record available.)
- If Form G-845 is submitted without copies of applicant's original documentation, it will be returned to the submitting agency without any action taken.
- Address this verification request to the local office of the Immigration and Naturalization Service.

found, the school isn't liable for aid disbursed prior to Secondary Confirmation. (This, of course, assumes that the school had no other conflicting information prior to making the disbursement and had reviewed the documentation and felt on that basis that the student was eligible.)

Interpreting the INS response

The G-845S has a number of checkboxes for the INS response. The status verifier will mark one or more of the boxes. The following list explains for each checkbox whether checking the box means the student is eligible. In reviewing the INS response, bear in mind that the G-845S reflects the student's most recent status with the INS and may show a different status than the documentation presented by the student. In this case, the school should verify that both documents identify the same person. [illegible], the status on the G-845S should be used since that status is the most current.

- **1. This document appears valid and relates to a Lawful Permanent Resident alien of the United States.** Block #1 is checked when the documentation submitted is determined to be a valid I-551, I-151, I-181, or I-94 or a passport stamped with the notation "Processed for I-551, Temporary Evidence of Lawful Admission for Permanent Residence."[7] A student with this status is eligible for SFA aid.

- **2. This document appears valid and relates to a Conditional Resident alien of the United States.** This is checked when the documentation submitted is determined to be a valid I-551, I-181, or I-94 or a passport stamped with the notation "Processed for I-551, Temporary Evidence of Lawful Admission for Permanent Residence." A student with this status is eligible for SFA aid.

- **3. This document appears valid and relates to an alien authorized employment as indicated below.** This is checked to indicate whether the authorization covers full-time or part-time employment and when, if applicable, the period of employment will expire. "Indefinite" will be indicated if there is no specific expiration date for employment eligibility. Employment authorization by itself doesn't mean that the student is eligible for SFA funds. Unless some other eligible status is also checked, or the student can provide other documentation that can be confirmed by the INS, the student isn't eligible for SFA aid.

- **4. This document appears valid and relates to an alien who has an application pending for...:** This is checked when an alien is waiting for a new immigration status or a change of immigration status. If a change of status is pending, the appropriate block indicating the current status will also be checked elsewhere on the G-845S. A pending application for an immigration status doesn't (by itself) make the student eligible for SFA funds. To be eligible, the student must have an eligible status checked on the form, or provide other documentation of an eligible status.

- **5. This document relates to an alien having been granted asylum/refugee status in the United States:** This is checked when an alien has been granted asylum or refugee status in the United States. Documentation presented may include either Form I-94 stamped with "Section 207-Refugee" or "Section 208-Asylee" or a Refugee Travel Document (Form I-571). A student with this status is eligible for SFA aid.

- **6. This document appears valid and relates to an alien paroled into the United States pursuant to Section 212 of the I&N Act:** This is checked for an alien who has been allowed to enter the United States under emergency conditions or under the determination that his or her entry is in the public interest. This status is temporary. Documentation presented may include Form I-94 stamped with "Section 212(d)(5) - Parolee." A student with this status is eligible for SFA aid.

- **7. This document appears valid and relates to an alien who is a Cuban-Haitian entrant:** This is checked for Cubans who entered the United States illegally between April 15, 1980 and October 10, 1980 and Haitians who entered the country illegally before January 1, 1981. A student with this status is eligible for SFA aid.

- **8. This document appears valid and relates to an alien who is a conditional entrant:** This is checked for conditional entrants under the old provisions of P.L. 89-236. Documentation presented may include Form I-94 stamped with "Section 203(a)(7)." Noncitizens who fall into this category had to have entered the United States prior to the enactment of the Refugee Act of 1980. A student with this status is eligible for SFA aid.

- **9. This document appears valid and relates to an alien who is a nonimmigrant.** This is checked to indicate an alien who is temporarily in the United States for a specific purpose. This category includes students, visitors, and foreign government officials. Documentation presented may include the Form I-94. Students with this status aren't eligible for SFA aid.

- **10. This document appears valid and relates to an alien not authorized employment in the United States:** This block is checked when an alien's status prohibits employment in the United States. Students with this status aren't eligible for SFA aid.

- **11. Continue to process as legal alien. INS is searching indices for further information.** This block is checked if INS is withholding judgment, pending further investigation on the status or validity of documentation. This statement doesn't imply that the applicant is an illegal alien or the holder of fraudulent documentation. Benefits shouldn't be denied on the basis of this statement.

The student's documentation should be accepted at face value until INS sends final notification regarding immigration status. If the student appears to be an eligible noncitizen based upon the school's review of the documents, the school may pay the student any SFA funds for which he or she is eligible. If INS later notifies the school that the student's documentation isn't valid, the school must cancel further disbursements but isn't liable for the payments already made.

- **12. This document is not valid because it appears to be...:** This is checked when the documentation presented has expired or when an item appears to be counterfeit or altered (there are checkboxes used to indicate which of these apply). Notify the student that unless corrective action is taken with INS, the case will be submitted to the Office of Inspector General (OIG). Additional communication with INS will allow any unfortunate mistakes in the status-verifier's review to be corrected. Until this discrepancy is resolved, no further aid may be disbursed, awarded, or certified. If the student does not take corrective action in a timely manner, the case must be reported to the OIG.

The INS will initial and stamp the front of the G-845S in the signature block.

The comments block on the back of the G-845S provides further instructions. The intended meaning of each of the following blocks that may be checked follows:

- **13. No determination can be made from the information submitted.** Please obtain a copy of the original alien registration documentation and resubmit. This is normally checked when the school has failed to provide copies of any of the INS documents. The statement is often accompanied by a listing of acceptable forms of documentation. The school should resubmit the G-845S with copies of the original alien documentation.

- **14. No determination can be made without seeing both sides of the document submitted.** Resubmit the G-845S with copies of both sides of each document.

- **15. Copy of document is not readable.** Resubmit the G-845S with higher quality copies of the original alien documentation.

The comments listed under "Permanently Residing Under Color of Law" (PRUCOL) reflect information about aliens who have applied for special treatment (for example, by virtue of having life-threatening medical situations) that may cause the INS to refrain from seeking their expulsion. These blocks will be checked only if a request for evaluation for PRUCOL is made in Block 8 on the first page of the G-845S. Comments will rarely be made in this section because the school wouldn't have asked for a PRUCOL evaluation when submitting the G-845S. However, in all cases, the INS should check other responses on

Requirement for Procedures if Ineligibility Determined After Disbursement Cite
34 CFR 668.136(c)

the form as well, and these other responses should be used to determine the student's status.

Student rights

The student is permitted at least 30 days from the time the school receives the output document to provide documentation of his or her citizenship status. During this period and until the results of the Secondary Confirmation are received, a school can't deny, reduce, or terminate aid to a student. Disbursements can be made to an otherwise eligible student pending the INS response if at least 15 business days have passed since the date on which the documentation was submitted to the INS. (Of course, the general exclusions for inconsistent data being on file are applicable here.)

A school isn't liable for an error in its determination that a student is an eligible noncitizen if, in making that determination, the school had no conflicting data on file and it relied on:

- an output document indicating that the student meets the requirements for federal student aid,
- an INS determination of an eligible immigration status in response to a request for Secondary Confirmation, or
- immigration status documents submitted by the student, if the INS did not respond in a timely fashion.

The student (or parent for PLUS borrowers) is liable for any SFA funds received if he or she is ineligible. If the school made its determination without having one of these types of documents, the school is held responsible for repaying SFA funds to the Department.

The school should establish procedures to ensure that if SFA funds are disbursed and the school later determines (using Secondary Confirmation) that the student isn't an eligible noncitizen, the student is provided with a notice of the determination, an opportunity to contest the determination, and notice of the school's final determination. The student can contest the determination by submitting to the school all additional documents that the student believes support his or her claim to be an eligible noncitizen. If the documents appear to support the student's claim, the school should submit them to INS using Secondary Confirmation. The school's final determination would be based on the Secondary Confirmation results.

For every student required to undergo Secondary Confirmation, the school is required to furnish written instructions providing

- an explanation of the documentation the student must submit as evidence of eligible noncitizen status. (The "Summary Chart of Acceptable Documentation" found on page 51 is acceptable).

- the institutional deadline for submitting documentation (which must be at least 30 days from the date the school receives the results of the Primary Confirmation) and notification that if the student misses the deadline, he or she may not receive SFA funds for the award period or period of enrollment; and

- an acknowledgment that no determination of the student's eligibility will be made until an opportunity to submit immigration status documents is provided.

School Secondary Confirmation Policies Requirements Cite
34 CFR 668.134

Eligibility of Citizens of Freely Associated States Cite
34 CFR 668.33(b)

CITIZENS OF THE FREELY ASSOCIATED STATES

The Compact of Free Association (P.L. 99-239) created three political entities from the former Trust Territory of the Pacific Islands. Two of these entities, the Marshall Islands and the Federated States of Micronesia, voted in 1986 to end political ties with the United States. The third entity, Palau, voted to ratify the compact in 1994; its independence was effective October 1, 1994. These three entities are the Freely Associated States. Citizens of the Freely Associated States are eligible for Pell Grants, FWS, and FSEOGs but are not eligible for loans.

Documenting Status

Students who are citizens of the Freely Associated States should answer the citizenship question (question 14) by indicating that they are eligible noncitizens and leave the item about the A-Number blank. (If the student doesn't have an SSN, he or she can leave that item blank as well.) Because the student isn't providing the A-Number, his or her application won't go through the INS match. As long as the student's file contains consistent information on his or her citizenship, the school isn't required to collect documentation.

Citizens of the Freely Associated States who file through EDExpress may indicate that they are eligible noncitizens, after which their state of legal residence will be confirmed. If they are determined to be residents of the Freely Associated States, they won't be required to provide an A-Number, and EDExpress won't reject their applications.

DOCUMENTING CITIZENSHIP STATUS IN LATER AWARD YEARS

There are several cases in which the school must verify a student's citizenship in a subsequent award year if that student again does not receive Primary Confirmation through the application process.

A student who presented a Temporary Form I-551 in a prior award year should have received a permanent I-551 by the next year and shouldn't still have a temporary card. The school should refer the student to INS to obtain a permanent I-551 or an updated endorsement on the previous card. The documents should also be submitted to INS on a G-845S.

Exclusion from Subsequent Secondary Confirmation Cite
34 CFR 668.133(b)

Lack of Response Example
Mikko is a refugee, and received aid from Guerrero University for the 1998-99 school year. His status wasn't confirmed through the INS match, so Guerrero had to perform Secondary Confirmation. The INS didn't respond in time, so Guerrero paid Mikko without any INS response. When Mikko applies for 1999-2000, the CPS still doesn't confirm his status. Because Guerrero didn't have an INS response for the previous year, it must perform Secondary Confirmation again, even though it went through the Secondary Confirmation process for Mikko last year and his documents haven't expired.

The school must also document the eligible noncitizen status each award year for a conditional permanent resident, a refugee, a Cuban-Haitian entrant, or a person granted asylum. Students in any of these categories may have been adjusted to permanent-resident status or may have had their statuses revoked. The school will have to perform Secondary Confirmation if the student's status isn't confirmed through the INS match.

The school doesn't have to perform Secondary Confirmation to document a student's eligible noncitizen status in subsequent award years if the school previously documented that the student is a U.S. citizen or national, is a citizen of the Freely Associated States, or has a Form I-551 or I-151.

In addition, the school isn't required to perform Secondary Confirmation if in a previous award year a school determined the student to be an eligible noncitizen through Secondary Confirmation and the documents used for that Secondary Confirmation haven't expired. The school must also have no conflicting information or reason to doubt the student's claim of having eligible noncitizen status. Also note that the school must have **confirmed the status** in a previous award year. (Although the school can disburse aid without the INS response if the INS doesn't respond in time, the school can't count that lack of response as confirmation for the following year.)

REPLACING LOST INS DOCUMENTS

If a student can't locate his or her official INS documentation, the student must request that the documents be replaced because immigrants are required to have in their possession documentation verifying their statuses. Requests for replacement documents should be made to the INS District Office that issued the original documents.

The student will be asked to complete a Form I-90, "Application to Replace Alien Registration Card" or a Form I-102, "Application for Replacement/Initial Nonimmigrant Arrival-Departure Document." PDF versions of these forms can be downloaded from the INS web site at < http://www.ins.usdoj.gov/forms/>. A temporary I-94 may be issued while the replacement documents are pending.

In cases of undue hardship, where the student urgently needs documentation of his or her status, the Freedom of Information (FOI) Act allows the student to obtain photocopies of the documents from the INS District Office that issued the original documents. The student can submit an INS Form G-639 to make this request or can simply send a letter to the district office. If the student is not sure which district office issued the original documents, he or she can submit the request to the FOI office in Washington, DC at

425 I Street, N.W.
Room 5304
Washington, D.C. 20536

Summary Chart of Acceptable Documentation

As an alternative for a student who is having trouble obtaining replacement INS documents, the student may use a G-639 to request photocopies of the original documentation.

Citizen Not Born in United States

Certificate of Citizenship	Must have student's name, certificate number, and the date the certificate was issued.
Certificate of Naturalization	Must have student's name, certificate number, Alien Registration Number, name of the court (and date) where naturalization occurred.
"Certification of Birth Abroad" Form FS-545, DS-1350, or FS-240, "Report of Birth Abroad"	Must have embossed seal "United States of America" and "State Department."
U.S. Passport	

Noncitizen National

U.S. Passport	Must be stamped "Noncitizen National."

Permanent Resident

"Alien Registration Receipt Card" Form I-151, I-551, or I-551C	The I-551C must have a currently valid expiration date.
Passport	Must be stamped "Processed for I-551" with expiration date.
I-94	Must be stamped "Processed for I-551" with expiration date or "Temporary Form I-551," with appropriate information filled in.

Other Eligible Citizen

"Arrival-Departure Record" Form I-94	Must be stamped as a Refugee, Asylum Status, Conditional Entrant (before April 1, 1980), Parolee, Cuban-Haitian Entrant.

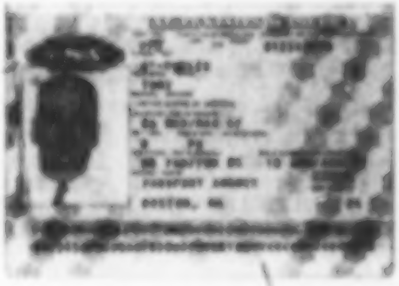
CITIZEN NOT BORN IN U.S./NONCITIZEN NATIONAL

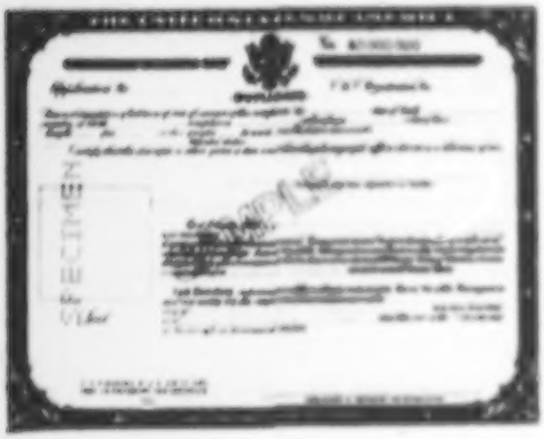
U.S. Passport

Can be used to document citizenship for citizen born abroad.

For noncitizen national — must be stamped "Noncitizen National"

(Note that a passport issued by another country may be used to document permanent resident status, if it has the endorsement "Processed for I-551" and has a currently valid expiration date.)





SPECIMEN

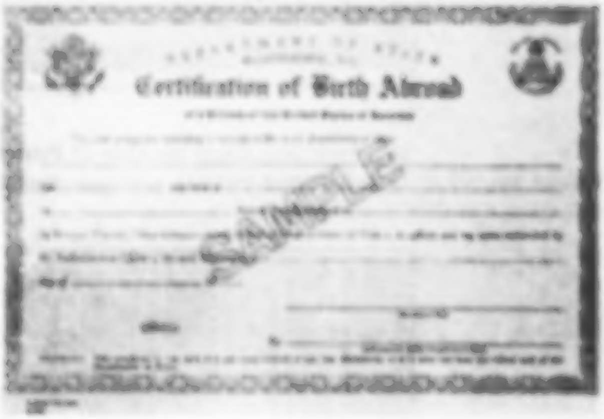
SAMPLE

Certificate of Citizenship

The Certificate of Citizenship is issued to persons who were born abroad of U.S. parent(s); who became citizens when their parents were naturalized; or who were adopted by U.S. parents.

Certification of Birth Abroad

Issued to U.S. citizens born abroad. Must have embossed seal of the State Department.



DEPARTMENT OF STATE

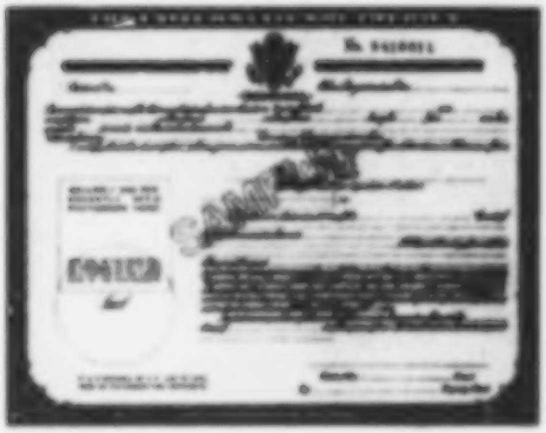
Certification of Birth Abroad

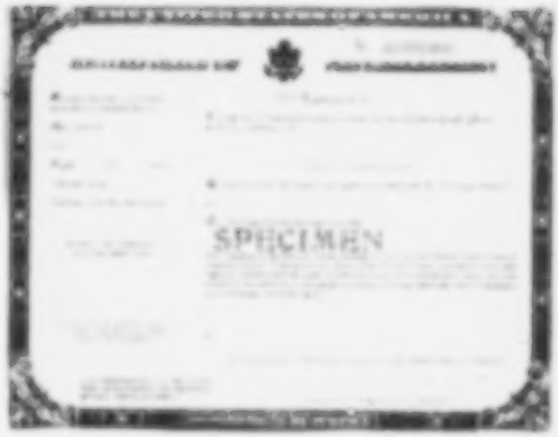
SAMPLE

BEST COPY AVAILABLE

Certificate of Naturalization

The Certificate of Naturalization is issued to naturalized U.S. citizens.

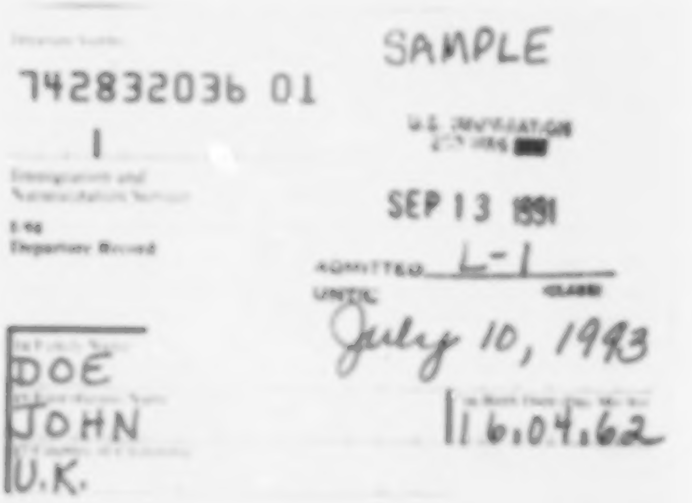




SPECIMEN

A revised version of the Certificate of Naturalization is issued to citizens who file for naturalization after October 1, 1991.

PERMANENT RESIDENT/OTHER ELIGIBLE NONCITIZEN



742832036 01

SAMPLE

U.S. IMMIGRATION

SEP 13 1991

Immigration and Naturalization Service

I-94

Departure Record

ADMITTED L-1

UNTIL (CLASS)

July 10, 1993

DOE

JOHN

U.K.

16.04.62

I-94 Arrival-Departure Record

For permanent resident status—must be stamped "Processed for I-551" with expiration date, or "Temporary Form I-551," with appropriate information filled in.

For other eligible noncitizens—must be stamped as Refugee, Asylum Status, Conditional Entrant (before April 1, 1980), Parolee, Cuban-Haitian Entrant.

BEST COPY AVAILABLE

PERMANENT RESIDENT

SMITH,
SAMPLE
SAMPLE

Alien Registration Receipt Card I-151

Issued prior to June 1978 to permanent residents. No longer issued, but valid indefinitely. Often referred to as a "green card," though it is not always green.

Alien Registration Receipt Card I-551 (Resident Alien Card)

Issued to permanent residents. The I-551 is a revised version of the I-151. Often referred to as a "green card," though it is not always green.

The "Conditional Resident Alien Card" is an I-551 that is issued to conditional permanent residents such as alien spouses. This card is identified by a "C" on the front, and has an expiration date on the back.

RESIDENT ALIEN
SAMPLE
SAMPLE

RESIDENT ALIEN
SAMPLE CARD

Financial Aid History

CHAPTER 3

If the student has certain kinds of student aid problems, such as defaulted SFA loans or SFA grant overpayments, the student may be ineligible. The school needs information about the student's financial aid history to determine if the student has any aid problems and so is ineligible. In this chapter, we discuss the types of problems that make a student ineligible, and the primary method for providing financial aid histories, the National Student Loan Data System (NSLDS).

FEDERAL DEBTS THAT AFFECT ELIGIBILITY

A person generally isn't eligible for SFA funds if he or she is in default on an SFA loan or must repay an SFA grant overpayment. This ineligibility rule also applies to a parent seeking a PLUS Loan (through the FFEL or the Direct Loan program). For a parent to receive a PLUS Loan, neither the parent nor the student may be in default or owe an overpayment through the SFA Programs. (There are several exceptions to these general rules on defaults and overpayments, as noted in the discussion below.)

Any student applying for SFA funds must certify that he or she isn't in default on any SFA loan and doesn't owe an overpayment on any SFA grant or loan, or that he or she has made satisfactory arrangements to repay the overpayment or default. This certification statement is printed on the FAFSA.

A student is also ineligible if he or she has exceeded annual or aggregate loan limits. A student who inadvertently exceeded the limits can regain eligibility if he or she repays the extra amount borrowed, or makes arrangements to repay (see "Loan Limits," page 58).

Finally, for a student to be eligible, his or her property must not be subject to a judgment lien for a debt owed to the United States. For example, if the Internal Revenue Service (IRS) had placed a lien on a student's property, the failure to pay this debt or make satisfactory arrangements for repayment would make the student ineligible for SFA funds. A parent can't receive a PLUS Loan if either the student or the parent has property subject to a judgment lien for a debt owed to the United States.

The Department performs a match against its National Student Loan Data System (NSLDS) database to check on whether the student is in default or owes a repayment. A school can also determine from NSLDS whether a student has exceeded the loan limits. The Department doesn't perform any matches to determine whether or not the student is subject to a judgment lien for a federal debt, and the

Federal Debt Cites

Sec. 484(a)(3), 484(f), 34 CFR 668.32(g), 668.35

Judgment Lien Example

Bennet College collects tax returns from all its aid applicants. When Charlotte provides her parents' tax return, the FAA at Bennet notices that they've reported business income, but didn't report a business asset on the FAFSA. Charlotte explains to the FAA that they didn't report the business as an asset because there's a lien against the business for a federal loan. The FAA tells her that the asset must still be reported (see Chapter 6 of this publication for more on reporting assets), and also that her parents won't be able to borrow a PLUS Loan as long as they are subject to the lien.

Ineligibility Due to Default Cites
Sec. 484(a)(3); 34 CFR 668.32(g)(1)

SFA Loans
Federal Perkins Loans (including NDSLs), FISLs, Federal Stafford Loans, Federal Direct Loans, Federal SLS, Income Contingent Loans (ICL), Federal Consolidation Loans, Federal Direct Consolidation Loans, Federal PLUS Loans and Federal Direct PLUS Loans.

Additional Ways of Reestablishing Eligibility for Perkins
Reauthorization added a provision to the Perkins Program that reestablishes the borrower's eligibility for Perkins if the borrower meets any of the conditions that would remove his or her Perkins Loan from the cohort default rate. This provision only allows the borrower to regain eligibility for Perkins, not the other SFA programs. See the Campus-Based Programs Reference.

Documenting Paid in Full Example
Eddy had a Stafford Loan as an undergraduate that went into default while he was out of school. When he applies for financial aid so he can go to graduate school, his ISIR shows that the loan is still in default. Eddy tells the FAA at Guerrero University that he paid off the loan last year. Guerrero asks him to bring in a letter from the guaranty agency saying that the loan's been paid. Eddy brings in the letter, and Guerrero keeps it in his file as documentation of his eligibility. The FAA also advises Eddy that he should ask the guaranty agency to update his status in NSLDS.

Satisfactory Repayment Arrangement Cites
Sec. 428F(b); 464(h)(2); 34 CFR 668.35(a)(2); 674.9(c); 682.200(b); 685.102(b)

school isn't required to check for such liens. However, if the school knows that the student is subject to such a lien, it can't pay SFA funds to the student.

Default

A student who's in default on an SFA loan can't receive further SFA aid until he or she resolves the default. The student can resolve the default in a number of ways.

Repayment in full

A student can resolve a default by repaying the loan in full, and is then eligible again for SFA funds. If the student and the loan holder agree on a compromised amount for settling a loan and the student repays the amount agreed upon, that counts as paying the loan in full. However, if the loan holder simply writes off the loan, the loan isn't paid in full, and the student is *still* ineligible for SFA funds.

The student regains eligibility whether repayment was completed voluntarily or involuntarily (that is, through IRS offset or wage garnishment). Although a student who has repaid his or her defaulted loan in full is eligible for aid, the school can still consider the default to be evidence of a student's unwillingness to repay loans and deny the student future Perkins Loans (see the Campus-Based Programs Reference).

If a student's paid a defaulted loan in full but receives an output document with a comment showing that he or she is ineligible because of the default, the student must give the school documentation proving that the loan has been paid in full.

Satisfactory repayment arrangements

A student in default on an SFA loan can be eligible for SFA aid if he or she has made satisfactory repayment arrangements with the loan holder. The student must make arrangements that are satisfactory to the loan holder and in accordance with the individual SFA loan program regulations (see the Campus-Based Programs Reference and the Direct Loan and FFEL Programs Reference). After the student makes six consecutive, full, voluntary payments on time, he or she regains eligibility for SFA funds.

Before a school can pay the student, it must have documentation that the student has made satisfactory repayment arrangements. For example, the lender may update the code for the loan in NSLDS to DX once six payments have been made; the school could then use the NSLDS information as confirmation of the repayment arrangement. The school may also use a written statement from the loan holder indicating that the student has made satisfactory repayment arrangements as documentation of the arrangement. See "Change of Status" in the Introduction for a discussion of what happens if the student becomes eligible during the school year.

Effect of Loan Status on Student Aid Eligibility

NSLDS CODES (in alphabetical order)		*LOAN STATUS*
BC	No default, bankruptcy discharge	Canceled or discharged
BK	No prior default, active bankruptcy claim	No default, bankruptcy
CA	Canceled	Canceled or discharged
DA	**Deferred**	**In school, grace period**
DB	**Defaulted, active bankruptcy claim**	**Default, bankruptcy filing**
DC	**Defaulted, compromised**	**Default, compromise**
DF	Default, false certification discharge	Canceled or discharged
DG	Default, false certification (ability to benefit) discharge	Canceled or discharged
DI	Disability	Canceled or discharged
DJ	**Default, discharged by judicial ruling**	**Canceled or discharged**
DK	**Default, bankruptcy discharge**	**Canceled or discharged**
DL	**Defaulted, in litigation**	**Default**
DN	Default, closed school discharge	Canceled or discharged
DO	Defaulted, active bankruptcy claim	Default, bankruptcy filing
DP	Default, then paid in full	Paid
DS	**Default, disability cancellation**	**Canceled or discharged**
DT	**Defaulted, collection terminated**	**Default**
DU	**Defaulted, unresolved**	**Default**
DW	Defaulted, write-off	Default, written-off
DX	Defaulted, satisfactory arrangements, and six consecutive payments	Default, satisfactory repayment arrangement
EA	False certification (ability to benefit) discharge	Canceled or discharged
EC	**Closed school discharge**	**Canceled or discharged**
EF	**Loan discharged for fraudulent disbursement**	**Canceled or discharged**
EJ	**Court ordered write-off**	**Canceled or discharged**
FB	Forbearance	In school, grace period
ID	In school or grace period	In school, grace period
OD	Default, bankruptcy discharge	Canceled or discharged
PC	**Paid in full through consolidation**	**Paid**
PF	**Paid in full**	**Paid**
RP	**In repayment**	**In school, grace period**
UI	Uninsured/Unreinsured	Lost guarantee

	LOAN STATUS	*Eligible for SFA Funds**
YES	**In school, grace period**	
	Paid	For consolidation, it does not matter what type of consolidation loan the borrower received, nor whether the loan was in default before consolidation.
	Lost guarantee	It does not matter if the loan was in default.
	Canceled or discharged	For a borrower who had a disability cancellation to receive new loans, the borrower must have a doctor's certification that his or her condition has improved and sign a statement indicating that he or she is aware that the new loan cannot be canceled.
	No default, bankruptcy filing	Loan was not in default and has not been discharged.
	Default, compromise	Compromise is recognized as payment in full.
	Default, satisfactory repayment	If borrower continues to comply with repayment plan or is granted forbearance.
NO	**Default, bankruptcy filing**	Unless debtor can show that loan is dischargeable.
	Default, written-off	Unless debtor reaffirms loan and makes satisfactory repayment arrangements or repays loan in full.
	Default	

---

*Federal Perkins Loan regulations allow the financial aid administrator to deny eligibility for additional loans if he or she has evidence that the applicant is unwilling to repay the loan.

Rehabilitation Cite

Sec. 428F(a), 464(k)(1); 34 CFR 674.5(f), 682.405, 685.211(e)

Rehabilitation Example

Eric continues making payments on his defaulted loan, and finally makes the 12 payments required for rehabilitation. His original lender isn't handling student loans anymore, so the guarantor finds another lender to purchase the loan. It takes the guarantor 3 months to arrange the purchase, and Eric needs to keep making the agreed on payments on time. Once the new lender has the rehabilitated loan, Eric can apply for an in-school deferment.

Loan Limits and Eligibility Cites

Sec. 484(f), 34 CFR 668.32(g)(2), 668.35(c)

Repayment Arrangements Satisfactory to the Holder

For defaulted loans, the law and regulations specify what a satisfactory repayment agreement is. For students who have exceeded loan payments or owe an overpayment, the law and regulations don't say anything about what makes a repayment agreement satisfactory. The loan holder (for loan limits) or school (for overpayments) has complete discretion to determine whether the repayment arrangement is satisfactory.

Rehabilitation

Although a student can regain eligibility for all SFA funds after making satisfactory repayment arrangements, the loan's still in default. After the student makes more payments, the loan may be rehabilitated (that is, it won't be in default any more), and the student has all the normal loan benefits, such as deferments. A student with a FFEL has to make 12 consecutive, full, voluntary payments on time before the loan can be rehabilitated. After the 12 payments have been made, the guarantor can arrange to have the loan purchased by a lender; the loan will then be rehabilitated. A defaulted Direct Loan is automatically rehabilitated after 12 consecutive, full, voluntary payments have been made on time. (See the Direct Loan and FFEL Programs Reference.) A Perkins Loan or an NDSL will be rehabilitated after the borrower executes a new written repayment agreement and makes one payment for each month for 12 consecutive months. (See the Campus-Based Programs Reference.)

Loan Limits

As mentioned previously, a student's ineligible for SFA funds if he or she has exceeded annual or aggregate loan limits. If the student **inadvertently** exceeded the limits, he or she can receive SFA funds if he or she repays the extra loan amount in full or makes repayment arrangements that are satisfactory to the loan holder. The borrower will remain ineligible for further SFA funds until one of these conditions is met.

Because a school should have verified compliance before a loan is disbursed to the student, excess borrowing shouldn't occur often. Excess borrowing might occur

- if a student borrowed for attendance at multiple schools and a school didn't receive financial aid transcripts before disbursing a Perkins Loan, certifying a FFEL, or originating a Direct Loan; or
- if the student used different names or SSNs when borrowing.

See the Campus-Based Programs Reference for Perkins Loan limits and the Direct Loan and FFEL Programs Reference for Direct Loan and FFEL limits.

The student's total outstanding loan balance, as well as the most recent loans, are listed in the Financial Aid History section of the output document. Schools can use this information to make sure students don't exceed loan limits. Beginning with the 1999-2000 award year, a comment will be on the output document if the student appears to have exceeded aggregate loan limits or is within one annual loan of exceeding the aggregate loan limit. If the student appears to have exceeded aggregate limits, the output document will also have a C code.

Overpayments

If a student receives a Pell overpayment, he or she can continue to receive SFA funds if the overpayment can be eliminated by reducing the subsequent Pell payments for the same award year. A student who receives an overpayment through the FSEOG, LEAP, or Perkins Loan program[1] can continue to receive SFA funds if the overpayment can be eliminated by adjusting subsequent financial aid payments (other than Pell) within the same award year.

Overpayment due to school error

The school is liable for overpayments that result from school error, such as those in the following list:

- The school made an interim disbursement before verification was complete (see Chapter 8 for information on the verification process).
- The school had conflicting documentation when the award was made (regardless of when the conflict was discovered).
- The school made an incorrect calculation of a student's eligibility for aid.

If the overpayment was the result of the school's error and the school can't eliminate the overpayment in the same award year, the school must repay the overpayment; the student is then not considered to owe an overpayment and may receive SFA funds.

Interim disbursements

If the overpayment is the result of an interim disbursement, the school can also continue to pay SFA funds to the student if the student repays the overpayment in full or makes repayment arrangements satisfactory to the school. If the student won't repay the overpayment, the school must repay the overpayment from its own funds within 60 days following the student's last day of enrollment or by the last day of the award year, whichever comes first. Again, once the school satisfies the overpayment, the student regains eligibility.

Overpayment due to student error

If a student's error caused the overpayment, the student is responsible for repaying the overpayment. If the overpayment can't be eliminated by adjusting later disbursements in the award year, the student can't receive additional SFA funds until he or she repays the overpayment in full or makes repayment arrangements that are satisfactory to the school. If the student won't agree to repay, the school isn't liable for the overpayment, but must make a reasonable effort to contact the student and collect the overpayment. In the case

Overpayments and Eligibility Cites

Sec. 484(a)(3); 34 CFR 668.32(g)(4); 668.35(c)

Overpayment

An overpayment is the amount of SFA funds a student received that's more than the amount the student was eligible for. For example, if the student received a $3,125 Pell, but the school later discovers that the student's EFC was incorrect and the student should only have received $1,675, then the student has a $1,450 Pell overpayment.

Overpayment School Error Examples

Allen received a Pell at Sarrow Technical Institute. Although Sarrow had the correct EFC on Allen's PAR, a different EFC was used in the Pell calculation, so Allen received too much money. Because the overpayment is due to a school error, Sarrow is liable for the overpayment.

Dorn received an outside scholarship to attend Guerrero University. The bursar's office was notified of the scholarship so that it would apply the payments properly, but didn't notify the financial aid office. Dorn received a Perkins Loan, but the financial aid office didn't take the scholarship into account when awarding the loan, because it didn't know about the scholarship. When the financial aid office later finds out about the scholarship, it discovers that Dorn received too much aid, and has a $600 Perkins overpayment. Because the school had information about the scholarship (even though the financial aid office didn't), the overpayment is due to a school error.

Overpayment due to Interim Disbursement Cite

34 CFR 668.61(a)

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[1] For all campus-based programs, if the student's total resources exceed his or her need by no more than $300 in excess of the amount for which he or she was eligible, this isn't considered an overpayment as long as it resulted from additional resources becoming available. If it results from school error (rather than additional resources becoming available), it is an overpayment and must be dealt with as discussed in this chapter. For more information, see Chapter 10 of this publication and the Campus-Based Programs Reference.

of an FSEOG overpayment, the school must promptly attempt to recover the overpayment by sending a written notice requesting payment in full to the student.

If the student is responsible for repaying the overpayment, the school may, if it chooses, make the repayment for the student (that is, the school can return to the program accounts the amount overpaid to the student). When a school makes such a repayment on the student's behalf, the student is no longer considered to owe an overpayment. Instead, the student owes an institutional debt that the school can collect according to its own procedures. Because the student doesn't owe an overpayment, he or she is eligible for SFA funds as long as all other eligibility criteria are met.

Reporting overpayments to NSLDS

Starting in July 1998, schools could report overpayments to NSLDS. Schools were required to enter information on any existing unresolved overpayments by October 31, 1998. After that date, schools must report overpayments or changes to previously submitted information within 30 days of the date it learns of the overpayment or change. Note that schools didn't have to report existing overpayments if they had already been referred to the Debt Collection Service (DCS).

Schools only report unresolved overpayments if they're due to student error; overpayments which are a result of school error aren't reported (instead, as discussed previously, the school must repay the overpayment). Also, if the school has paid the overpayment for the student as described above, the overpayment isn't reported to NSLDS, because it's no longer considered an SFA overpayment.

Schools must use the online NSLDS screens to report overpayments, which means they need online access to NSLDS. The September 19, 1997 electronic requirements notice stated that schools had to have online access by January 1, 1998. For information on entering overpayment data, see Chapter 7 of *The NSLDS: The Paperless Link Computer Assisted Training Guide*. This publication is available on the IFAP web site <http://ifap.ed.gov>, or schools can call 1-800/999-8219 to ask for a copy.

After the information is reported to NSLDS, the student's future output documents will show that he or she has an overpayment (see "NSLDS Match," page 64). The Financial Aid History section will have information on the overpayment, including whether the student has made repayment arrangements.

Referral of overpayment cases

As mentioned previously, the school must try to collect from its students overpayments that haven't been repaid. If a school can't recover a Pell or FSEOG overpayment for which the student is liable, the school must refer the overpayment to the Department for collection. (See the Pell Reference and the Campus-Based Programs

Overpayment Student Error Examples

When Chance applied, he didn't have his W-2 forms, so he estimated his income and said that he wasn't going to file a tax return. After he received his aid from Sarcom Technical Institute in June, he told the FAA that he'd underestimated his income, and had had to file a tax return. When Chance submitted the corrections, his EFC was increased, and Sarcom determined that he'd received a Pell overpayment. Sarcom canceled his second Pell disbursement, but he still owed $100. Sarcom allowed Chance to make a repayment agreement to repay $25 a month for four months so that he'll still be eligible for other aid for the rest of the year.

Minerg has to report financial information about his father on the application, although he's living with his stepfather. On the 1999-2000 application, he doesn't report any assets for his father, and Brust Conservatory uses the information from that application to award SFA aid. However, his 2000-2001 application is selected for verification, and during the verification process Brust discovers that Minerg's father has a business that should have been reported as an asset. Brust asks for tax information for the previous year, and determines that Minerg should also have reported the business as an asset on the 1999-2000 application. Minerg's EFC increases when he makes the correction, and he received an overpayment for the 1999-2000 award year. Because he's already received all his aid for the year, he has to either pay the overpayment or make a repayment agreement.

Reporting Overpayments to NSLDS Cite

"Dear Colleague" Letter GEN-98-13, July 1998

Electronic Requirements Cites

September 19, 1997 Federal Register notice, "Dear Colleague" Letter GEN-97-11, October 1997

Reference for more information.) The school must make this referral in addition to the earlier reporting of the overpayment to NSLDS.

If the school can't collect a Pell overpayment, it can refer the overpayment to DCS if the amount owed is at least $25. It can also refer an FSEOG overpayment to DCS as long as the federal share of that overpayment is at least $25. If the school chooses not to refer such overpayment cases to DCS, the school is liable for the overpayments and must repay the appropriate program funds from school funds. If the federal share of an FSEOG overpayment is less than $25, and the school can't collect from the student, the school isn't required to take further action.

To refer a Pell or FSEOG overpayment case to DCS, the school must provide all information necessary for collection on the case. Each referral must be typed and submitted on the school's letterhead and should follow the format given on page 62. In addition, when the school refers the overpayment, it should update the overpayment information previously reported to NSLDS by changing the Source field from SCH to TRF (see *The NSLDS: The Paperless Link Computer Assisted Training Guide*).

Remember that even if the amount owed is less than $25, it's still an overpayment, and the student will continue to be ineligible for federal student aid funds at any school until the amount is repaid or until satisfactory repayment arrangements are made. The school should use all available means to recover the overpayment from the student, in accordance with the school's standard policies and procedures, for as long as the school believes is reasonable.

School responsibility

After referring an overpayment case, the school can't make further federal student aid payments to the student until it's received notice from the Department. In addition, it may be required to provide any relevant documentation it has.

Once the school receives confirmation from the Department that the referred account has been accepted, it has no responsibility in the collection of the debt unless the student contacts the school to make repayment. If the student tells the school that he or she wishes to make repayment, the school should accept payment on behalf of the Department and forward the payment to:

U.S. Department of Education
Debt Collection Service
P.O. Box 4169
Greenville, Texas 75403-4169

The school should put the student's name and SSN on the check. If the check covers more than one student, the school should list each student's name, each SSN, and each payment amount.

School Resolves Student Concerns Before Referral

If a student claims that a school's FSEOG overpayment determination is erroneous, the school must consider any information the student provides and determine whether the objection is warranted before referring the case to DCS.

Overpayment Referral Format

In referring overpayment accounts to ED, the institution must provide all the information listed. Also, each referral must be typed and submitted on institutional letterhead.

PART 1. Student Information

Name:
Social Security Number(s):
Date of Birth:
Address(es):
Telephone Number(s):

PART 2. Parent/Spouse Information

Name(s):
Social Security Number(s):
Address(es):
Telephone Number(s):

PART 3. Disbursements and Repayments

1. Name of aid program: ______________________________
2. Total amounts disbursed: $________
   a. Amount credited to tuition account: $________
   b. Amount disbursed in hand: $________
3. Dates of disbursement(s): ______________ ______________
4. Costs incurred by student: $________
5. Amount determined to be owed: $________
6. Total amount of debt repaid to institution: $________
7. Date of last payment to institution, if any: ________
8. Total amount being referred: $________
   (For FSEOG, provide federal share amount only)

PART 4. Other Required Information

Award Year of Overpayment:
Student Education Costs:
Name and Telephone Number of Institutional Contact:
Pell Identification Number of Institution:

PART 5. Detailed Explanation of Reason for Overpayment

Provide a detailed explanation of the reason for the overpayment. Each account reported to ED *must* contain this explanation.

FORWARD THE REFERRAL INFORMATION TO:

U.S. Department of Education
Student Financial Assistance Programs
c/o Student Loan Processing Center
Program Overpayments
P.O. Box 4157
Greenville, Texas 75403

If the student whose overpayment case has been accepted by the Department wishes to establish a repayment schedule, the student should contact DCS at 1-800-621-3115 or DCS_HELP@ed.gov.

Departmental responsibility

Upon receipt of an overpayment referral, the Department will determine if enough information has been provided to start collection activity; any referral lacking information will be returned to the school. If the referral information is complete, the school will receive a letter confirming receipt and acceptance of the overpayment referral.

DCS will then start collection activity (letters and telephone contacts) to try and establish a repayment schedule or secure payment in full. DCS will also update the NSLDS information the school already reported to show that DCS now holds the overpayment. The student's output document will still show that he or she owes an overpayment, but will now direct the student to contact DCS instead of the school.

Other Loan Problems

A student who has filed bankruptcy or had a loan discharged for disability might need to provide some additional documentation before receiving aid.

Bankruptcy

A student with an SFA loan discharged in bankruptcy is eligible for SFA grants, work-study, and loans. A borrower doesn't have to reaffirm a loan discharged in bankruptcy in order to be eligible. The Bankruptcy Reform Act of 1994 prohibits denial of aid based solely on a bankruptcy discharge.

A borrower who listed a dischargeable SFA debt in a bankruptcy filing is also eligible for further federal student aid before the debt is actually discharged. The borrower must provide documentation to the school from the holder of the debt stating that the debt is dischargeable.

In addition, if a student includes a non-defaulted SFA loan in a bankruptcy claim, so that collection on the loan is stayed, the student remains eligible for SFA funds as long as he or she has no loans in default (including the stayed loan) and as long as all other eligibility requirements are met. For more information on loan status and eligibility, see the chart on 57.

Total and permanent disability cancellation

A borrower whose loan is canceled because of total and permanent disability may later receive any type of SFA funds if he or she meets all other eligibility requirements. If such a borrower wishes to take out an SFA loan, he or she must obtain certification from a legally licensed physician stating that the student's condition has improved and that the student 1) has the ability to engage in substantial gainful activity or 2) can attend school. Then the student must sign a statement indicating that he or she is aware that his or her new SFA loan can't later be canceled on the basis of any present impairment unless that condition substantially deteriorates to the extent that the definition of total and permanent disability is again met. The borrower isn't required to obtain a physician's certification or to sign the statement if he or she is applying for an SFA grant or work-study only.

Successful Match Results Flag and Match Flags
Results Flag: 1, Match Flags: 1, 2, 3, 4

Partial Match Results Flag and Match Flag
Results Flag: 2, Match Flag: 7

Partial Match Comment Code
138

Incorrect Information on Application Example
When Sarcen Technical Institute receives Tod's ISIR, it shows that there was a discrepancy with the NSLDS database, and so no financial aid history information is provided. The FAA asks Tod if he provided the correct name and birth date on the application. Tod says he wrote in the wrong month for his birth date, but his name is correct. The FAA checks the NSLDS database using Tod's SSN. NSLDS shows the correct birth date, but the first name of the student is Warren, not Tod. Sarcen checks again with Tod, and this time he explains that Tod is a nickname, and Warren is his real name. Sarcen determines that the financial aid history associated with the SSN belongs to Tod. It could disburse aid without requiring a correction, but Tod has other corrections to make, so Sarcen will wait for the correction before disbursing aid.

NSLDS MATCH

To help schools determine if a student has problems such as defaulted loans, overpayments, or exceeded loan limits, the CPS matches the student's application with the NSLDS database. Remember that a school is responsible for reconciling all information it receives about a student before disbursing aid (see the Introduction). Therefore, schools must resolve any conflicts between the NSLDS information and information received from the student. For example, if the NSLDS shows that a student isn't in default but the school has documentation showing that the student is in default, the school must resolve this conflict before disbursing federal student aid.

A student's application information is matched against the NSLDS database, and the results of this match are provided on output documents on the NSLDS Financial Aid History page and in the FAA Information Section. As is the case for other matches, a "C" next to the student's EFC indicates problems that must be resolved. The school must resolve these eligibility problems before disbursing aid.

Successful Match

An output document will contain the NSLDS financial aid history information only if the student's identifying information matches the database and there is relevant information for the student in the database. The financial aid history won't be provided on a rejected application. If the student has no defaults or overpayments, or has made satisfactory repayment arrangements on a defaulted loan, the NSLDS match flag will be 1 and no C code will be on the output document. A match flag of 2, 3, or 4 indicates that the student has defaulted loans or owes an overpayment. The school will then need to resolve the problem before disbursing aid, as described previously.

No Data from Match

There are several reasons why a student's output document won't have financial aid history information. As already mentioned, the financial aid history isn't provided on a rejected application. For the other cases, the school can check the NSLDS flags reported in the FAA Information Section to determine why there's no NSLDS financial aid history.

Partial match

If the student's SSN is in the NSLDS database, but the first name and date of birth don't match what the student reported, then no financial aid history will be reported, and the output document will have a C code. The output document will have a comment explaining that the financial aid history isn't provided because the name and date of birth do not match, and directing the student to work with the school to resolve any discrepancies. A partial match **requires resolution**, as explained in the following paragraph; otherwise the school won't have information from the Department on defaults and overpayments.

If the student originally reported incorrect information, the school can have the student submit correct information; the student's information will then be sent through the match again. The school can also access NSLDS directly using the reported SSN to determine if the NSLDS record belongs to the student. The school determines whether the NSLDS record is the student's by considering whether other information it has about the student is consistent with the NSLDS data. For example, if the name reported on the application is a nickname and the name in NSLDS is the actual name, the school should determine that the record is the student's and use the NSLDS data in determining the student's eligibility. Or if the school knows that the student attended a particular school in a particular award year, and NSLDS shows aid received at the school in that year, the school may assume that the record belongs to the student. If the school discovers the discrepancy is due to the student misreporting the name or date of birth on the application, it should have the student make a correction. However, the school may use the NSLDS record to determine the student's eligibility; it doesn't need to wait for the corrected data to be reported.

If the school determines that the financial aid history associated with the student's SSN doesn't belong to the student, it should assume that the student has no relevant financial aid information. The school (or the student) may also contact the agency that reported someone else's data using the student's SSN, but isn't required to do so. See "Dear Colleague" Letter GEN-96-13 for further discussion.

Student not in database

If a match with NSLDS is completed but there's no information on the student in the database, then no financial aid history information can be provided. The output document will have a comment explaining that the student's SSN is not associated with any previous financial aid history. The school can thus assume that the student has no financial aid history unless it has conflicting information.

No relevant history

If a student's SSN matches a record in the NSLDS database but there's no relevant financial aid history information to report, then no information will be on the output document. For example, no data would be reported if the only information for a student was for a Pell received in the previous year, because that information isn't needed to determine the student's eligibility for aid for the current year. The student will receive a comment explaining that his or her record was matched with NSLDS, but no information was found to print on the NSLDS page.

Incorrect NSLDS Data Example

Lydia is a first year undergraduate at Bennet College, and has never attended college before. When Bennet receives Lydia's ISIR, it shows that there was a partial match, and there's some data associated with her SSN. Bennet checks NSLDS directly, and it shows that a lender is reporting a loan made ten years ago (when Lydia was in elementary school) under her SSN, but with a completely different name and birth date. Bennet determines that this isn't Lydia's loan, and so she has no financial aid history in NSLDS. Bennet also suggests to Lydia that she should contact the lender and ask them to correct the NSLDS data, so it doesn't cause problems for her later on.

Not in Database Results Flag and Match Flag

Results Flag: 3, Match Flag: 1

Not in Database Comment Code

140

No Relevant History Results Flag and Match Flag

Results Flag: 4, Match Flag: 1

No Relevant History Comment Code

137

Processing Problem Results Flag and Match Flag
Results Flag: blank, Match Flag: 8

Processing Problem Comment Code
131

Processing problem

If there was a problem with the match, no financial aid history information will be on the output document, and it will have a C code. The output document will also have a comment explaining that the CPS couldn't determine whether the student has loans in default, and directing the student to contact the FAA. The school must get the student's financial aid history before disbursing aid. If the student has to make corrections, the application will go through the match again when the corrections are submitted, and the FAA can use the results of that match to determine the student's eligibility. The student or school can also request a duplicate output document. The application will go through the match again when the duplicate is requested, so the school might get match results the second time. Finally, the school can instead request paper financial aid transcripts from all the schools the student previously attended.

Changes after Initial Match

Once the school has received the financial aid history through NSLDS, it isn't required to check for changes to the data before it disburses or delivers funds to the student. However, if the school learns (from NSLDS or another source) that the student wasn't eligible or is no longer eligible, it must not deliver or disburse any more SFA funds and must help make sure the student arranges to repay the aid that he or she wasn't eligible for.

The Department has a postscreening process to notify schools when there are significant changes to a student's NSLDS data. Under postscreening, the CPS generates new output documents when the student's eligibility may have changed due to a change in NSLDS data, so that schools that are listed in the student's application information will automatically be notified. Items that have changed since the last transaction are also marked on the output document with a "#" sign.

To help schools identify when they have received an output document with changed NSLDS data, the Department provides the NSLDS Transaction Number. This number can be found in the FAA Information Section with the other match flags. The NSLDS Transaction Number is the number of the last transaction on which the NSLDS data changed. If a school receives an output document with an NSLDS Transaction Number later than the one on the output document the school used to determine the student's eligibility, the school should review the NSLDS data on the new document to be sure there are no changes affecting the student's eligibility. Note that if a student or school requests a duplicate output document, the request is also sent to NSLDS for matching. If the NSLDS data have changed, the request will be treated as a system-generated correction, and both the output document transaction number and the NSLDS Transaction number will be updated.

NSLDS Match

Result	*Results flag*	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
Student not in default, does not owe overpayment	1 NSLDS data sent	1		No comment	None
SSN is in database, but neither the first name nor date of birth matched	2	7	C code	138 We matched your social security number (SSN) with the National Student Loan Data System (NSLDS), but neither name nor date of birth on the NSLDS record match the information on your student aid application. Therefore this SAR does not contain the financial aid history that is associated with your reported SSN. You should review your name, SSN, and date of birth and work with your FAA to resolve discrepancies.	If the student originally reported incorrect information, he or she should make a correction. The application will be sent through the match again, and the school should check the new output document for the results. Otherwise, the school can access the NSLDS directly to determine if the record belongs to the student (see "Partial match," page 64). If the record does belong to the student, the school must use the NSLDS data in determining the student's eligibility. If the record is not the student's, the school should assume that the student has no relevant financial aid history; it may also want to contact the agency that provided the information.
Student is not in the NSLDS data file	3	1		140 Your application record was compared with the National Student Loan Data System (NSLDS). The NSLDS confirmed that your social security number is not associated with any previous financial aid history.	None
Student is in the NSLDS data file, but there is no relevant data to print	4	1		137 Your application record was compared with the National Student Loan Data System (NSLDS). However, no financial aid history information was found for printing on your SAR.	None

NSLDS Match (continued)

Result	*Results flag*	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
Student has at least one loan in default	1 NSLDS data sent	2	C code	132 Our records indicate that you are in DEFAULT on a Federal student loan. You are not eligible to receive any Federal student aid until your account has been resolved.	The output document will also have comments indicating who holds the loan, unless the loan is a Perkins Loan. The school code of the school holding a defaulted Perkins Loan will be on the NSLDS Information page. The student must resolve the default before he or she can receive aid (see "Default," page 58.)
Student owes at least one overpayment	1 NSLDS data sent	3	C code	133 Our records indicate that you received at least one overpayment of Federal student aid funds. You are required by law to repay any funds received from the Federal student aid programs to which you were not entitled. Until your overpayment has been resolved, you are ineligible to receive any Federal student assistance.	If the Department holds the overpayment, the output document will also have a comment identifying the appropriate regional office. The NSLDS Financial Aid History page lists codes for the holders of overpayments. The school can also access NSLDS directly to determine the holder of a Perkins overpayment. The student must resolve the overpayment before he or she can receive aid (see "Overpayments," page 59.)
Student has at least one defaulted loan and owes at least one overpayment	1 NSLDS data sent	4	C code	134 Our records indicate that you are in DEFAULT on at least one Federal student loan and that you received at least one overpayment of Federal student aid funds. You are not eligible to receive any Federal student aid until your accounts have been resolved.	See the required actions for default and overpayment above.

NSLDS Match (continued)

Result	*Results flag*	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
Match not conducted due to processing problems		8	C code	131 To receive Federal student aid, you cannot be in default on any U.S. Department of Education student loan. Because of processing problems we were unable to determine whether you are in default on a loan. Contact your FAA for more information.	If any corrections are made, the student's information will be rematched with NSLDS. In addition, if the student or school requests a duplicate output document, the application information will be rematched with NSLDS. In either case, the school should check the new output document for match results. Otherwise, the school must get a paper FAT from any previous schools.

FINANCIAL AID HISTORY

Before disbursing or delivering SFA funds, a school must receive a financial aid history for a student who has received aid at another school. The financial aid history is used to prevent a student from receiving any SFA aid if he or she is in default or owes a repayment on an SFA grant or loan, or from exceeding SFA program limits.

In the past, a school had to get a student's financial aid history by requesting a paper financial aid transcript (FAT) from the previous schools the student attended. Since 1996, schools have also been able to get student financial aid histories through NSLDS.

Although schools are strongly encouraged to use NSLDS for financial aid histories, they aren't required to do so. Schools may still request a student's financial aid history through a paper FAT, and a school that receives a request for a paper FAT must still complete and return the FAT to the requesting school. There are no changes to the requirements for requesting or receiving a paper FAT. A school can withhold academic transcripts from students who are in default or owe an overpayment if it wishes, but it must release financial aid transcripts or financial aid history information at the request of the student or another school.

Although the use of NSLDS for financial aid histories is optional, as of January 1, 1998 schools are required to have on-line access to NSLDS for other purposes.

Financial Aid History Cite
34 CFR 668.19

NSLDS for Financial Aid History Cites
"Dear Colleague" Letter GEN-96-13, September 20, 1996 Federal Register notice

NSLDS for Financial Aid History

There are four ways for a school to get financial aid history information from NSLDS. The school can

- use the NSLDS Financial Aid History section of the output document;
- request an electronic data file of financial aid history information for specific students through the TIVWAN;
- request an electronic print file of financial aid history information for specific students through the TIVWAN; or
- log on to NSLDS directly and access the NSLDS data on-line for an individual student.

In most cases, the financial aid history on the output document will be enough. There are some cases where the school might want to check NSLDS for more information. For example, if the student has more than 12 loans, detailed information on some of the loans isn't on the output document, and the school will need to look at NSLDS if it needs the details. Or, as discussed previously, the school might need to use NSLDS to resolve a partial match situation (see "Partial Match," page 64).

Midyear transfers

In some cases, NSLDS might not provide timely financial aid history information for students who attended another school during the same award year (midyear transfers). Because NSLDS data providers are on a monthly submission schedule (except Pell, which is updated daily), the student's current information may not be available immediately when he or she transfers. The school has several options for obtaining financial aid history information for midyear transfer students.

- The school can determine if the student previously attended other schools (see "Checking previous attendance," page 71) and obtain financial aid history information for a midyear transfer directly from the previously attended school or schools. If the previous school has closed, the school can check NSLDS or write to the FSAIC, as described under "Requesting FAT information," page 72.
- The school can use NSLDS for the financial aid history for previous years, and request only current year information from the previous school. The necessary current year information is the student's name and SSN, the award year which the transcript covers, the student's scheduled Pell Grant, the amount of Pell funds disbursed, the amount of Perkins loan disbursed, and the amount of, and period of enrollment for, the most current loan made to the student under the FFEL and Direct Loan programs.

Requirement to Check Previous Attendance Cite
34 CFR 668.19(a)(1)

- The school can use NSLDS and disburse aid if it checks NSLDS no earlier than 60 days after the student's last date of enrollment at the other school. Waiting for 60 days after the student's previous enrollment has ended should allow enough time for all the data from the previous school to be reported. If the school later discovers that the student shouldn't have received all or some of the aid, the school wouldn't be liable, but the student would be responsible for repaying any amounts for which he or she was not eligible.

- The school could review the NSLDS data from the student's output document and then make an initial disbursement of Pell and campus-based funds or certify or originate loans as is permitted when a school is waiting to receive an FAT it has requested (see page "Payment and certification options," page 72). The school would then check NSLDS no earlier than 60 days after the student's last enrollment at the previous school; it may then make subsequent disbursements or release loan funds, if the student's eligibility is confirmed.

Financial Aid Transcript

If a school doesn't use NSLDS for financial aid history information, it has to determine for each student if the student attended any other eligible schools and then get FAT information from those other schools.

Checking previous attendance

If a school is using FATs instead of NSLDS, the school must make an active effort to find out if the student previously attended other schools. For instance, most schools routinely ask any prospective student to state previous academic experience, either in the course of an admissions interview or on the school's application. The school is responsible for ensuring the "consistency of information" at the school regarding a student's eligibility (see "Conflicting Information" in the Introduction), and therefore must have a system to exchange such information with the admissions office.

Requesting FAT information

The FAT information must be sent directly from the previous school to the current school (not to the student). The student can request that a transcript be sent, or the current school can make the request. In either case, the current school must document that a request was made. (Neither the school nor the student is required to request a financial aid transcript from a foreign school.) Note that although a student can make the request that a transcript be sent, it is the school, not the student, that is **required** to obtain the FAT.

A school isn't required to use a paper FAT to get the FAT information directly from another school. A school can use any reasonable method to get the information, as long as the school has all the information required by regulations and the school maintains proper documentation. Instead of using a paper FAT, a school may get the information through written documentation, such as letters or

No Transcript Required Cite
34 CFR 668.19(a)(7)

Payment and Certification Options Cite
34 CFR 668.19(a)(5)

faxes. All documentation must contain the signature of the official authorized by the previous school to provide FAT information. The use of email isn't allowed because signatures can't be attached to email.

If it appears that the student's previous school has since closed, the school might want to use NSLDS to get the financial aid history. Otherwise, the current school can request the Department's assistance by writing to the following address:

Federal Student Aid Information Center
Financial Aid Transcript Request
P.O. Box 4129
Iowa City, IA 52244

The current school will receive one of the following responses from the Department's FSAIC:

- No transcript is required for this student because his or her school has closed, is no longer eligible to participate in the SFA Programs, or doesn't appear to be actively participating in the SFA Programs;

- The transcript must be requested directly from the school, which is currently in operation and is participating in the SFA Programs (the school's current name and address will be included in this response); or

- The request didn't provide the needed information; the school must resubmit the request, providing the name of the student, the name and address (city, state) of the previous school, and the specific years of attendance in question.

If no transcript is required, either because the previous school is foreign, has closed, or doesn't participate in the SFA Programs, a school isn't required to take further steps to get financial aid history information. However, the school must use any information it has to ensure that the student hasn't defaulted on an SFA loan. A school is required to check any ISIRs it receives as a result of the postscreening process. Also, to prevent an overaward for the current award year, the school should get the student's signed statement of the amounts of SFA Program funds that were awarded and disbursed to him or her for the current award year.

Payment and certification options

Once the school has requested the FAT information, it can pay the student Pell and campus-based funds for one payment period only. If a school exercises this option, after it receives the transcript information it must make any necessary adjustments to the student's aid package before making another payment. Also, the school must have documentation that the FAT information was requested. The school isn't liable for the amount of the first payment if it never receives the FAT information (or if the information arrives and shows that the student's ineligible). However, the school can't make any subsequent payments to the student without receiving the transcript information, and must attempt to collect any overpayment from the student (see "Overpayments," page 59).

After requesting the transcript information, the school can certify a Stafford loan application for the student, but can't release the proceeds from the loan until after the transcript information is received. If the school certifies a Stafford loan application and then receives FAT information showing that the student's ineligible, the school must return the loan proceeds to the lender. In addition, beginning with the 1999-2000 award year, the school can't hold FFEL proceeds for more than three days if the school receives the funds by EFT or master check, or thirty days if the school receives the funds by individual check. If the FATs still have not arrived at the end of the three (or thirty) days, the school must return the loan proceeds to the lender. For more information on the return of FFEL Program funds to a lender, see the Direct Loan and FFEL Programs Reference.

Under General Provisions regulations, the school can't certify a PLUS application until the school has received the FAT information.

After requesting the transcript information, the school can originate a Direct Loan award for the student, but the school can't disburse funds to the student until the transcript information is received.

In several cases, the regulations permit the school to pay a transfer student without receiving a financial aid transcript. The school may pay the student as usual if the previous school certifies that the student didn't receive SFA Program funds or certifies that the record retention period for the student's period of attendance has expired and the previous school no longer has the student's records. (See the SFA *Handbook: Institutional Eligibility and Participation* for recordkeeping requirements). As mentioned earlier, the new school can also pay without transcript information if the new school discovers that the previous school has closed and the requested information isn't available.

Sending a transcript

When a school receives a request for FAT information, the school must promptly provide the requested information. If the student didn't receive SFA funds, or attended the school so long ago that the record retention period has lapsed and the school no longer has those records, the school must notify the requesting school in writing that the transcript information won't be sent and specify the reason. If the school sending the transcript information has any information indicating that the student had attended any other schools, it must include the names of those schools with the transcript information (or in the written response, if the school isn't required to send transcript information). When the school requesting the transcript information finds that the student has attended another school, it must also request transcript information from that school.

Sending a Transcript Cite
34 CFR 668.19(b), (d)

Required Transcript Contents Cite
34 CFR 668.19(c)

A school can't withhold FAT information for a student who owes a debt to the school (such as unpaid tuition and fees, or a library fine or parking fine). However, the Department doesn't discourage the withholding of official academic transcripts in compliance with applicable state laws.

All FAT information must be signed by the person the school authorizes to sign transcripts and other financial aid documents; the transcript doesn't need to be certified. Using a signature stamp to validate transcript information is also acceptable if the stamp is restricted for use by specific financial aid personnel. In either case, a school is liable for any inaccurate information provided. Note that a school can accept a fax of transcript information if it's properly completed and signed.

Required information items

The transcript information must include:

- **the student's name and Social Security Number;**
- **whether the student is in default on an NDSL or Perkins Loan, or owes a repayment on a Pell, Perkins Loan, or FSEOG at that school.** The school should always be able to tell from its own records if the student's in default or owes a repayment for any of these programs.
- **if known, whether the student owes a repayment on a LEAP grant or is in default on a FFEL or Direct Loan received at that school.** In most cases, the holder of the debt (the Guarantee agency, the state agency, or the Department) will have informed the school if the student is in default or owes a repayment.
- **for the award year in which the transcript is requested, the amount of Perkins funds disbursed;**
- **the total amount of any loans received by the student under the Perkins and NDSL programs at that school;**
- **whether the student had an outstanding balance on an NDSL (either Defense or Direct) from that school on July 1, 1987.** This will affect whether the student may be considered a new borrower in the Perkins Loan Program. New Perkins borrowers are given a nine-month grace period, rather than the six-month NDSL grace period and are eligible for a cancellation for volunteer service in the Peace Corps (see the Campus-Based Programs Reference).
- **whether the student had an outstanding balance on an NDSL (either Defense or Direct) from that school on October 1, 1980;**
- **the amount and period of each loan made to the student under the FFEL and Direct Loan programs at that school.** This

includes PLUS loans taken out by the student's parents on the student's behalf.

- **the student's Scheduled Pell Award and the amount of Pell funds disbursed to the student for the current award year.**

Schools don't have to report information on FSEOG awards with the transcript information because annual FSEOG maximums apply only to the amount that the school may award during an award year, not to how much the student may receive from multiple schools.

When responding to an FAT request, a school isn't required to include information about the amount of aid awarded at other schools or the student's default or overpayment status at other schools. However, the school sending the transcript must list these other schools with the transcript information, and the new school must make sure that it has received transcript information from those schools.

A school can decide to provide additional information such as types of work-study or cooperative education study performed, institutional scholarships awarded, or Pell awards received in prior years. A school can also include any information about a student's eligibility for, or receipt of, financial aid if the school considers that information useful to the school the student will be attending.

Model Transcript

Although there's no official form for the required FAT information, the National Association of Student Financial Aid Administrators (NASFAA) has developed an FAT form that schools may use as a model (see the following pages). FAAs may receive a copy by writing to NASFAA at 1920 L Street N.W., Suite 200, Washington DC 20036. NASFAA is also developing a FAT form that can be used to request only the information needed for midyear transfers. Contact NASFAA for more information on this new form.

Part I of the transcript contains identifying information about the student and may be filled out either by the student or by the requesting (current) school. The student's signature is optional. However, the transcript must include the student's name and SSN.

Part II of the transcript gives the student's financial aid history, as completed by the financial aid office at the prior school. Section A gives information about other schools the student attended. Section B is used when the school isn't providing the student's financial aid history either because the student didn't receive SFA funds at the school or because the record retention period has expired and the records are no longer available. Section C contains several statements regarding the SFA funds received by the student, including outstanding loan balances, repayments owed, and defaults. The school should check all statements that are true for the student in question. Sections D and E are used to report amounts of aid received from the SFA Programs. Section F is the signature block for the school sending the transcript.

FINANCIAL AID TRANSCRIPT

PART I: To be completed by the STUDENT

*Instructions: If you ever attended another postsecondary institution, you **must** complete Part I of this form and submit it to the Financial Aid Office of that institution. Federal regulations require that a Financial Aid Transcript request be sent to every institution you previously attended, regardless of whether you received aid to attend that institution.*

Name ______________________________ Social Security # ______________
Last First M.I. Maiden
Name used at previous institution (if different from above) ______________________________
Student's Address ______________________________

I request that the Financial Aid Office at
____
which I attended from ____________ to ____________
provide the information requested in Part II to the institution shown to the left.

I ☐ did ☐ did not receive aid while a student at this institution.

Student's Signature (optional)

____

Fold here for window envelope

PART II: To be completed by the STUDENT FINANCIAL AID OFFICE at the previous institution.

Complete either:
- Sections A, B and F, OR
- Sections A, and C through F

SECTION A **Other Institutions Attended.** *(Everyone must complete this section.)*

The institution has information indicating the student attended institutions other than this institution:

☐ No, our records show no previous institution attended.
☐ Yes, our records indicate that the student has attended the following institutions: ______________________________

SECTION B **To be completed if the institution is not completing Sections C, D, and E.**

The information requested in Sections C, D, and E is not provided because:

☐ The student neither received nor benefited from any Title IV aid while at this institution.
☐ The transcript pertains solely to years for which the institution no longer has and is no longer required to keep records under the Title IV recordkeeping requirements.

If you have completed Section A and checked one of the reasons in Section B, and are not required to provide any other information, skip Sections C, D, and E, and complete Section F. Otherwise, proceed with Section C.

SECTION C **Check all statements that apply.**

☐ The student received increased Federal Perkins Loan (NDSL) at this institution due to Expanded Lending Option or study abroad.
☐ The student had an outstanding balance on an NDSL at this institution on July 1, 1987, which is still outstanding as of today's date.
☐ The student had an outstanding balance on a Federal Perkins Loan (NDSL) at this institution on October 1, 1992, which is still outstanding as of today's date.
☐ The student owes a refund due to overpayment on a Federal Pell Grant, FSEOG, or Federal Perkins Loan (NDSL) at this institution.
☐ The student is in default on a Federal Perkins Loan (NDSL), Income Contingent Loan (ICL), at this institution.
☐ The institution is aware that the defaulted Federal Perkins Loan (NDSL, ICL) has been discharged in bankruptcy.
☐ The institution knows the student owes a refund due to overpayment on SSIG received for attendance at this institution.
☐ The institution knows that the student is in default on a Federal Family Education Loan or a William D. Ford Federal Direct Loan received for attendance at this institution (including consolidation loans).
☐ The institution is aware that the defaulted Federal Family Education Loan or a William D. Ford Federal Direct Loan has been discharged in bankruptcy.
☐ The student received "additional unsubsidized" Federal Stafford/Federal Direct Stafford/Ford loans at this institution as an independent student or as a dependent student whose parent was unable to borrow Federal PLUS/Federal Direct PLUS.

[illegible]

SECTION D Assistance Received or Benefited From at This Institution

For ALL federal aid programs: When indicating totals, deduct any refunds, repayments, or Federal Pell Grant recoveries which have been returned due to an overpayment or student withdrawal. Do NOT deduct Federal Perkins Loan/NDSL prepayments or payments made according to a repayment schedule.

Sources of Assistance		Current Year Amounts 19____-____	Cumulative Total (include current year)
Federal Pell Grant	Total Disbursed to Date		xxxxxxxx
	Scheduled Award (full time, full year)		xxxxxxxx
Does the school expect to make additional disbursements to the student after this transcript is signed? If so, indicate when: ____________		xxxxxxxx	xxxxxxxx
Federal Perkins/NDSL Loans			
SSIG/State Grant/Other aid* (optional - identify each)			

* If this school participates in health professions aid programs through the Department of Health & Human Services, include them here.

SECTION E Federal Family Education Loans/William D. Ford Federal Direct Loans Borrowed While at This Institution

Column I - list loan period, grade level, and loan amounts borrowed from the Federal Family Education Loan/William D. Ford Federal Direct Loan Program for either the current year, or the academic year immediately preceding the current year (if no loan borrowed during current year). If no loan was borrowed for either of these periods, leave Column I blank.
Column II - list total of ALL Federal Stafford/Federal Direct Stafford/Ford AND Federal SLS/ALAS loans borrowed at YOUR institution.
Both Columns - deduct any refunds or repayments which have been returned due to student withdrawal; do not deduct loan fees.

	I. Current Year Loan (if no current year loan, list loan for immediately preceding academic year, if any)			II. Cumulative Total at this Institution (include Column I amounts)
Federal Family Education Loans and William D. Ford Federal Direct Loans	Loan Period* Use mm/dd/yy	Grade Level	Amount Borrowed**	Total Amount Borrowed
Subsidized Federal Stafford and Federal Direct Stafford/Ford Loans	from ___/___/___ to ___/___/___			
Unsubsidized Federal Stafford and Federal Direct Stafford/Ford Loans	from ___/___/___ to ___/___/___			
Federal SLS	from ___/___/___ to ___/___/___	xxxxx		
Federal PLUS/Federal Direct PLUS	from ___/___/___ to ___/___/___	xxxxx		xxxxxxxxxxxxxxx

* Include all loan periods applicable to the same Borrower-Based Academic Year or Scheduled Academic Year.
** Total of all loans from all loan periods applicable to the same Borrower-Based Academic Year or Scheduled Academic Year.

SECTION F This section must be completed.

Authorized Signature ______________________ Date ______________
Typed Name ______________________ Title ______________
Name of Institution ______________________________________
Address ______________________________________
____
Telephone ______________________________________
COMMENTS ______________________________________
____

Form developed by the National Association of Student Financial Aid Administrators

Revised [illegible]

BEST COPY AVAILABLE

Correct SSN

CHAPTER 4

To be eligible to receive SFA funds, each student must provide a correct Social Security Number (SSN). To confirm the student's SSN for schools, the Department conducts a match with the Social Security Administration (SSA). In this chapter, we discuss the SSN requirement and the match process.

GENERAL INFORMATION ABOUT REQUIREMENT

The Department collects the SSN on the application so that it can verify the SSN for the school. The SSA and the CPS work together to conduct the match verifying that the student's SSN is valid and that the name and birth date associated with that SSN match the name and birth date provided by the student. The school must be sure that it has the correct SSN before disbursing any aid. There is one exception to the requirement to provide SSNs, as discussed below (see "Exception for Micronesia, Marshall Islands, Palau," page 86).

Because the Department uses the SSN in its databases, it also must have the correct SSN in its records. Therefore, a school is required to make sure the Department knows the correct SSN if the school has documentation that the SSN on the application or output document is wrong. The school fulfills this requirement by having the student make a correction to the application information.

The CPS won't process an application without an SSN. A student who doesn't have an SSN, or doesn't remember his or her SSN must contact the local Social Security office for help. For additional information (in English and Spanish), a student should call the SSA at 1-800-772-1213 or go to its web site at <http://www.ssa.gov>.

SSN Requirement Cites
Sec. 484(p); 34 CFR 668.32(i), 668.36

Requirement to Notify ED of Correct SSN Cite
34 CFR 668.36(a)(2)

SSN MATCH

The CPS provides the match results in the FAA Information section of the output document, as the SSN Match Flag. In addition, the CPS prints a comment giving the student instructions if there was a problem with the match. Note that there is no comment if the match is successful.

If the match was successful, the CPS doesn't rematch the student's data against the SSA database on subsequent transactions. However, the CPS will attempt the match again if the student makes corrections to the name, birth date, or SSN. (Note that the SSN can't be corrected

Match Flag for Successful Match
4

Comment for Attempted Change to Confirmed SSN
11

Match on Wrong SSN Example
When Stanislaw submits his FAFSA, he accidentally provides an SSN with one number wrong. However, even though it is not his SSN, the SSA confirms the data in the match with CPS. Stanislaw sees the mistake when he gets his SAR, and tries to correct it. Because the match confirmed that the SSN was on the database, and that it matched his name and date of birth, the CPS won't make the change. Stanislaw gets the new SAR back. It has a comment telling him that he can't change his SSN. Stanislaw calls the FAA at Less Community College, who tells him he must start over with a new FAFSA.

Match Flag and Reject Code for Date of Death
5, Reject 8

Comment for Date of Death
147

Match Flag and Reject Code for No Match
2, Reject 18

Comment for No Match
24

if all the match elements were previously confirmed; see "Successful Match" below.)

Once all the match elements have been confirmed (that is, SSN, name, and birth date all match), the SSN flag will be carried forward to the next year's Renewal FAFSA, and the SSN match won't have to be performed again.

Successful Match

If the CPS match with SSA confirms the student's SSN, and SSA records have the same name and birth date as reported on the FAFSA, the student's SSN has been confirmed and the school may disburse aid to the student. No comment is provided on the output document when the SSN match is successful. Of course, if the school has any conflicting information about the SSN, it must resolve the conflict before disbursing SFA funds to the student.

Once a student's SSN is confirmed, and there is no discrepancy on the name or birth date, the student can't change the SSN. If a student whose match data have been confirmed subsequently tries to change his or her SSN, the CPS won't accept the change. Instead, the student's SAR will have a comment telling the student to contact his or her FAA for help. If the confirmed SSN is wrong, the student can only correct it by filing a new FAFSA.

Date of Death

For the 1999-2000 award year, the Department plans to expand the match with SSA to include the Date of Death field. If the SSA's database shows a date of death associated with the SSN the student reported, the student's application will be rejected. Students resolve this problem in the same way as problems matching the SSN. The student must either contact SSA to get the records corrected, or must submit a change with the correct SSN (see "No Match on SSN").

No Match on SSN

The school must resolve any problems with the match before disbursing aid. If the SSN is not found in the SSA database, the student's application will be rejected. The student will also receive a comment that instructs the student to correct his or her SSN or contact SSA if he or she believes the SSN reported is correct. The student will have to correct the application information with the CPS before he or she can receive aid.

Incorrect SSN on application

If the student's application is rejected because he or she reported an incorrect SSN, the student must provide a correct SSN to the CPS. The student could simply submit a correction (either on the SAR, or by having the school submit a correction through EDE). However, the Department recommends that the student file a new application using the correct SSN, rather than correcting the original information.

One reason for this recommendation is that the SSN is used by the Department as part of the student identifier. The CPS uses the SSN reported on the student's first application of the award year as the identifier for the student for that year. If the student corrects the SSN, his or her identifier for the year still contains the original, incorrect SSN. This may cause a conflict if another applicant also applies using that SSN (See "Applicants using Same SSN," page 85). It may also cause confusion in communicating with other Department systems, such as NSLDS or the Pell payment system.

Incorrect SSN from data entry

If student provided the correct SSN on the application, but the SSN on the output document is wrong, the student can contact the Federal Student Aid Information Center (FSAIC) at 1-800-433-3243. The FSAIC can confirm whether there was an error entering the student's data into the CPS. The FSAIC will refer any such data errors to the Department for correction; the student should not submit a correction. After the data entry error is corrected, the CPS will produce new output documents. See Chapter 9 of this publication for general information on data entry error corrections.

Correct SSN not in SSA database

If the SSN on the form is correct, but isn't in the SSA database, the student must contact a local or regional SSA office to update the database. He or she must report the correct SSN to the SSA and provide documentation verifying the correct number. The student must contact an SSA office directly; he or she cannot ask the Department of Education to correct SSA records. The SSA database is updated daily with information from local and regional offices. Once the SSA database is updated, the student can submit a correction, providing the SSN originally reported as if it is a correction. The CPS will then match again with SSA. Note that the student can't simply verify that the SSN is correct; the application will be rejected until the SSA database is updated.

No Match on Name or Birth Date

The student's application won't be rejected if the SSN is in the SSA database but the name or birth date doesn't match those the student provided. The school still needs to resolve the discrepancy before paying the student.

Problems matching the name are less likely if the student makes sure that the name he or she provides on the application matches the name on his or her Social Security card.

Incorrect name or birth date on application

A student may not need to correct a name or birth date that was reported incorrectly on the application. The school can disburse aid if the student can explain the discrepancy and provide documentation showing that the SSN belongs to him or her. Although the student isn't required to make a correction, the Department recommends that he or she do so. The incorrect name or birth date can prevent other matches (such as the NSLDS match) from working properly. Also, if the name or birth date is not corrected, financial and history data may

Match Flags for Name or Birth Date Discrepancy
2, 3

Comments for Name or Birth Date Discrepancy
60, 62

Incorrect Name on Application Example

When Sansom Technical Institute reviews Ted's ISIR, the FAA sees that, according to the SSN match, the name Ted provided on his application isn't the one associated with his SSN in the SSA database. The FAA asks Ted to bring in documentation showing his correct name and SSN. He brings in his Social Security card. The first name on the card is Warren, not Ted. He also has a driver's license showing his first name is Warren. The FAA could disburse aid to Ted, keeping a copy of the Social Security card as documentation of the correct name. However, because Ted has other corrections to make, the FAA asks him to also correct his name when he makes the other corrections.

Correct Name not in Database Example

Elizabeth's ISIR shows that, according to the SSN match, her name doesn't match the one on file for her SSN. When the FAA talks to Elizabeth, she explains that she recently got married and changed her last name. Elizabeth gives the FAA a copy of her marriage certificate. The FAA plans to disburse aid to Elizabeth, but advises her to contact SSA and have the database updated to prevent future problems.

Match Flag and Reject Codes for Missing Information

8, Reject 5, 13, 5, F

Comments for Missing Information

23, 59

be submitted to NSLDS using the incorrect name or birth date, which may cause problems for the student in subsequent years.

If the student reported the current (or later) year as his or her birth date, the application will be rejected, and the student **must** submit a correction.

Correct name or birth date not in SSA database

If the name or birth date in SSA records don't match the correct name and birth date reported on the application, the student isn't required to contact SSA to update its records. Instead, the student only needs to provide documentation to the school showing that the name and birth date on the application is correct. However, the student may wish to ask SSA to update its database, so that he or she does not need to provide documentation every time he or she applies for SFA aid.

Missing Information

No match is performed when the student doesn't provide the last name or birth date, and the student's application will be rejected. The student must submit a correction with the missing information. Although the CPS doesn't conduct the match, it will check to see whether the reported SSN falls within a valid range.

SSN within valid range

If the SSN is in a valid range, the student will receive a comment explaining that the match could not be conducted without the name or birth date. The student must submit a correction providing the missing information. When the correction is sent, the information will be sent to SSA for matching, and the school should check the new output document for match results.

SSN not within valid range

If the SSN doesn't fall within a valid range, the student will receive a comment stating that the reported SSN does not appear to be valid. In addition to submitting the missing name or birth date on a correction, the student must either contact SSA to correct its records (if the reported SSN is correct) or correct the SSN he or she reported. Again, the school should check the new output document for match results.

Social Security Number Match

Result	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
Successful match	4		No comment	None
Date of birth inconsistent with SSA records	2	C code	060 The date of birth you reported on your application is inconsistent with the Social Security Administration's records.	The student may receive payment after providing documentation that explains the discrepancy and showing that the submitted SSN is correct. If the reported birth date was incorrect, the student can also submit a correction; the application will then be rematched, and the school should check for changes to the match results. If the reported date of birth was correct, the student may want to contact SSA to have it correct its records.
Name inconsistent with SSA records	3	C code	061 According to Social Security Administration (SSA) records, the name you reported on your application does not correspond with the social security number you provided in Item 8. You should review Items 1, 2, 3, and 8 on this SAR. If all of these items are correct, you must contact an SSA office to resolve this problem. If you find that any of these items are incorrect, you should make corrections on your SAR where appropriate.	The student may receive payment after providing documentation that explains the discrepancy and showing that the submitted SSN is correct. If the reported name was incorrect, the student should submit a correction to the CPS. The application will then be rematched, and the school should check for changes to the match results. If the reported name is correct, the student may want to contact SSA so it can correct its records.
Match conducted, but no match on SSN (SSN invalid)	1	Reject 18	024 The Social Security Administration (SSA) did not confirm that the social security number you reported on your aid application is valid. If you believe that the number you reported is correct, you must contact an SSA office to resolve this problem. If you determine that the social security number you reported on your aid application is not correct, you should correct your social security number in Item 8 on your SAR or contact your FAA.	If the student's SSN is correct, the student should contact SSA to have it correct its database. Once the database is updated, the student can reenter the SSN and submit the change as a correction. If the SSN is incorrect, the student can correct the SSN on the output document, or file a new FAFSA with the correct SSN (see "Incorrect SSN on application," page 80).

Social Security Number Match (continued)

Result	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
No match because last name or date of birth was missing, but SSN is within valid range	8	Rejects N, 13, and/or 5	059 We could not determine from the Social Security Administration if the social security number you reported belongs to you because you did not give us your last name or date of birth. Correct Items 1 and/or 9 on your SAR.	The student must make corrections to provide the name and date of birth. When the corrections are submitted, the application will be rematched with SSA. The school should check the new output document for the match results.
No match because last name or date of birth was missing, and SSN is not within valid range	8	Reject P and Rejects N, 13, and/or 5	023 It appears that the social security number you reported on your application is not a valid social security number. See your FAA for assistance.	The student must make corrections to provide the name and date of birth. In addition, if the student's SSN is correct, the student should contact SSA to have it correct its database. Once the database is updated, the student can reenter the SSN and submit the change as a correction. If the SSN is incorrect, the student can correct the SSN on the output document, or file a new FAFSA with the correct SSN.
Student tried to change SSN previously confirmed by SSA.	4		013 You tried to change your social security number. The Social Security Administration already verified that this social security number belongs to you. If you need assistance, see your FAA.	If the student used a wrong SSN but it was confirmed by SSA, the student can only change it by filing a new application, not by making a correction. In certain rare cases, the student may need a correction application (see "Applicants Using Same SSN," page 85).
Match to a deceased person's record on the SSA database	5	Reject 8	145 According to Social Security Administration (SSA) records, the social security number you provided in Item 8 belongs to a deceased person. If Item 8 is incorrect, you should correct your social security number on your SAR or contact your FAA. If the number in Item 8 is correct, you must contact an SSA office to resolve this problem.	If the student's SSN is correct, the student must contact SSA to have it correct its database. Once the database is updated, the student can reenter the SSN and submit the change as a correction. If the SSN is incorrect, the student can correct the SSN on the output document, or file a new FAFSA with the correct SSN.

APPLICANTS USING SAME SSN

When applicants with similar names report the same SSN by mistake, they may end up with a shared record identifier. The record identifier is made up of the SSN and the first two letters of the applicant's last name. The CPS uses this record identifier to identify the applicant for the rest of the award year, even if the student later makes a correction to the SSN or last name on the SAR or ISIR. If another student submits an application with the same SSN and first two letters of the last name, the CPS assumes the application is a duplicate application from the first applicant. As is usual with duplicate applications, the CPS won't accept the data on the new application (except for a new address or different schools). In addition, the shared number will cause problems for both students in the CPS and Pell systems, because the systems will treat them as a single student.

The student who has used the wrong SSN and now has a shared identifier **must** correct this error by filing a new FAFSA. The student cannot simply submit a correction on the SAR or through EDE, because he or she will still have the same, shared identifier.

If the student using the correct SSN applied after the other student, he or she must submit a special type of application called a "correction application." This correction application will cause the CPS to accept the student's data instead of treating the application as a duplicate and providing the other student's data on the output document. If the student using the correct SSN applied first, his or her data should already be on the application record, and so a correction application isn't necessary. However, the student should check to see if the address and schools have been changed, and should make corrections to those if necessary.

Both students should keep copies of all the output documents, including those from the first FAFSAs filed. When the students file the correction application or a new FAFSA, the application receipt date is changed. Because some schools and agencies use this receipt date to determine if the student met a deadline, the students should keep the output documents to show the original receipt date and to show why a second (and later) application was necessary.

A financial aid administrator who needs to receive a 1999-2000 Correction Application should contact the Department at [illegible]. The Department will determine case by case if a Correction Application is necessary. If a Correction Application is necessary, the financial aid administrator may request that it be mailed either to the school or to the student.

Students Using Same SSN Example

Hector completes an application in January, but uses his brother Eddy's SSN instead of his own. When Hector gets his SAR, he realizes that he used the wrong SSN, corrects the SAR, and mails it back to the processor. He gets a new SAR with the correct SSN, but it has the same identifier as the first SAR. Eddy files an application in April, and is surprised to receive a SAR that doesn't match what was on his application because it has Hector's information instead. Eddy goes to the financial aid office at Guernsey University, where a counselor tells him he'll need to file a correction application. Hector is also attending Guernsey, so the counselor asks Eddy to have Hector contact the financial aid office so they can explain why he'll need to file a new application even though he already has a SAR with the correct information.

EXCEPTION FOR MICRONESIA, MARSHALL ISLANDS, PALAU

Students from the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau are not required to provide SSNs. Students from these areas who don't have SSNs should send their FAFSAs to the following address—not to the address on the FAFSAs or on the FAFSA envelopes:

Federal Student Aid Programs
P.O. Box [illegible]
Mt. Vernon, IL 62864-[illegible]

The Department prefers that schools bundle such applications and send them as a group. These applications will first be assigned a special identifying number (in lieu of an SSN) in Item 8 of the FAFSA and then will be sent to the CPS for regular processing. These applications are exempt from the SSN match with the SSA.

Students who don't have SSNs cannot use FAFSA on the Web or FAFSA Express to apply for SFA funds electronically. These students may, however, ask their schools to use EDExpress to transmit the student applications electronically if EDExpress is available.

Selective Service

CHAPTER 5

Anyone required to register with Selective Service at any time must have done so in order to receive SFA aid. The Department performs a match with Selective Service to confirm a student's registration. In this chapter, we discuss the registration requirement and the Selective Service match.

GENERAL INFORMATION

Men who are from age 18 through 25 are required to register with the Selective Service System. This requirement covers both citizens of the United States and most other men residing in the United States, except that a man who is in the United States as a lawful nonimmigrant isn't required to register as long as he maintains that status. There are exceptions to the registration requirement, as discussed under "Exemptions," page 88. Only students are required to register for Selective Service to be eligible for SFA funds. Parents who want to borrow a PLUS loan don't have to meet the registration requirement.

The Department provides some convenient ways for the student to register. There's a question on the application that asks if the student wants Selective Service to register him. By answering "Yes", the student gives the Department of Education permission to submit his registration information to the Selective Service so that the student may be registered.* A student can also ask to be registered by changing the answer to this question on the SAR to "Yes" and submitting the correction. The student may also go directly to the Selective Service web site at http://www.sss.gov and register online.

In some cases, a student will not be able to register using the FAFSA or SAR. Generally, however, a male student who is between 18 and 26 and who has not registered previously may use this method. Students who have questions about Selective Service registration may contact the Selective Service at 1-847-688-6888 or at http://www.sss.gov.

Selective Service Requirement Cites

34 CFR 668.32(j), 668.37

Age and Registration

The student can be registered with Selective Service as early as 30 days before his 18th birthday; if the student is too young, Selective Service will hold the registration until the student is within 30 days of his 18th birthday. Students 26 and older can't be registered.

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*If the student doesn't also answer "Yes" to the question "Are you male?" Selective Service won't register the student if his first name matches its female name table.

Exemptions Cite
34 CFR 668.37(a)(2)

Exemption Examples
Bill has been on active duty in the Army from the time he was 18, and didn't register with Selective Service before he joined the Army. He's now 24, is planning to leave the Army, and wants to receive financial aid. If he applies while he's still on active duty, he doesn't need to be registered with Selective Service. Once he leaves, he must be registered, or else he won't be able to receive aid in later years. In most cases, when someone completes an enlistment contract he is automatically registered, so Bill is probably already registered even though he didn't complete a separate registration form.

George was enrolled in an officer procurement program at the Virginia Military Institute. He started a month before he turned 18. When he was 22, he had a serious accident and was hospitalized; he officially dropped out of school a month after he was hospitalized. Due to his injuries, he was hospitalized for four years. Because he qualified for a waiver for the entire time he was 18 through 25, he was not required to register with Selective Service.

Status Information Letter Codes
The Selective Service has a number of different types of Status Information Letters. Copies of the letters are included at the end of this chapter. A code appears on the lower left-hand corner to indicate the type of letter in question. The codes are listed here:
- ***[illegible].*** *A letter with any of these codes indicates that the student was not required to register or was exempt the entire time he could have registered (ages 18 through 25).*
- ***NR.*** *A letter with this code indicates that the student was born before 1960 and is therefore not required to register.*
- ***RR.*** *A letter with this code indicates that the student said he attempted to register but that Selective Service has no proof that he attempted to register.*

EXEMPTIONS

Males exempted from the requirement to register include:

- males currently in the armed services and on active duty (this exception does not apply to members of the Reserve and National Guard who are not on active duty);
- males who are not yet 18 at the time that they complete their applications (an update is not required during the year even if a student turns 18 after completing the application);
- males born before 1960; and
- citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau;
- noncitizens who first entered the U.S. after they turned 26;
- noncitizens who entered the U.S. as lawful nonimmigrants on a valid visa and remained in the U.S. on the terms of that visa until after they turned 26.

There are certain less common situations in which registration isn't required. Students who aren't required to have already registered prior to meeting one of these criteria and who meet one of the criteria for the entire time they are 18 through 25 qualify for the waiver if:

- they are unable to register due to being hospitalized, incarcerated, or institutionalized;
- they are enrolled in an officer procurement program at The Citadel, North Georgia College, Norwich University, or Virginia Military Institute; or
- they are commissioned Public Health Service officers on active duty or members of the Reserve of the Public Health Service on specified active duty.

If the student isn't required to register, the school must document the student's status. If the student isn't clearly exempt from the requirement to register, the school should ask the student to document the exemption by providing the school with a Status Information Letter from the Selective Service.

As mentioned above, noncitizens who first enter the U.S. after the age of 26 aren't required to register. Only those immigrant men who enter and live in the U.S. at ages 18 through 25 are required to be registered. If a male immigrant can show proof that he first entered the U.S. when he was past registration age, he is clearly not required to be registered, and no Status Information Letter is needed. The

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[1] Whether a person is a male or female is a matter for medical determination. If a school needs to determine whether a student is male or female for Selective Service purposes, the school should ask the student to write to Selective Service for a Status Information Letter.

student's entry documentation is enough to show whether he was required to register.

SELECTIVE SERVICE MATCH

To check that students who must be registered actually are registered, the CPS performs a match with the Selective Service System. The CPS provides a match flag showing the match results in the FAA Information section of the output document. In addition, the output document has a comment about the match results.

Successful Matches

If the match shows that the student is registered or exempt, a comment confirming this fact will be on the student's output document. The student is then eligible for SFA aid.

The student is also eligible for aid if the match shows that the student is still too young to register. If the student asked to be registered, Selective Service will hold onto that registration request until 30 days before the student's 18th birthday, and will then register the student.

Finally, the student is also eligible if the CPS successfully forwarded the student's name to Selective Service for registration.

Unsuccessful Matches

If the match didn't confirm the student's registration, or the student couldn't be registered, the output document will have a comment about the problem. A "C" flag will also be printed next to the student's EFC. Until the student resolves the registration problem, the school can't pay SFA funds to the student and can't certify or originate a loan.

Registration not confirmed

If the match showed that the student wasn't registered, the student must either register or provide evidence that he is registered or is exempt from registration. The student's Selective Service Registration Acknowledgement or letter of registration shows that the student is registered. The school can also go to the Selective Service web site at <http://www.sss.gov> and check on the student's registration status. The school can print out the web page as documentation that the student is registered. If the student doesn't have an acknowledgement or letter of registration, and the web site doesn't confirm the registration, he'll have to contact Selective Service to resolve the problem. If the conflict is resolved in the student's favor, he'll receive a letter from the Selective Service documenting that he is registered or that he is exempt from registering.

Unsuccessful registration

The CPS won't be able to forward the student for registration if certain information (first and last name and date of birth) is missing. The student should submit a correction with the required information.

- **[illegible]**: A letter with this code indicates that the student did not register although he was on active duty in the armed forces only for a portion of the time when he could have registered (between ages 18 through 25) and was therefore required to register.
- **[illegible]**: A letter with this code indicates that the student was required to register, that the Selective Service has no record of his registration, and that Selective Service has no records about the man and can make no determination regarding his compliance with the registration requirement during the period he was required to be registered.
- **[illegible]**: A letter with this code indicates that the student provided a reason for not registering or provided documentation proving him exempt from the requirement, but that the Selective Service determined the reason or documentation to be invalid. Therefore, this code indicates that the student was required to register but did not.

Match Flags for Successful Match
[illegible]

Comments for Successful Match
[illegible]

Match Flags for Unsuccessful Match
[illegible]

Comments for Unsuccessful Match
[illegible]

Unsuccessful Registration Example

[illegible]

Failure to Register Cite

[illegible]

the school then looks at the match results from this correction to see if the student is eligible.

The registration forwarding will also fail if the student is 26 or older. Such a student can't register, and the school will have to determine if the student is still eligible despite failing to register (see "Failure to Register").

FAILURE TO REGISTER

Some students have been denied aid because they failed to register with the Selective Service before their 26th birthday. (The Selective Service will register only males age 18 through 25, leaving older students with no way to remedy their situation if they failed to register.) The Military Selective Service Act was amended to require a school, under certain conditions, to pay otherwise eligible students who are 26 or older and who did not register when required. To receive aid, such students must demonstrate that they did not knowingly and willfully fail to register.

The Department of Education's regulations also allow students who did not register and are too old to register to receive aid if they served on active duty in the armed forces. (It is presumed that a person who has actually served in the armed forces is not trying to avoid registering for duty.) The school should obtain such a student's DD Form 214, "Certificate of Release or Discharge from Active Duty," showing military service in the armed forces with other than the reserve forces, the Reserve Forces pool, and the National Guard and release under a condition other than dishonorable.

The school must determine whether a student who has not served on active duty knowingly and willfully failed to register. That is, the school must determine if the student knew of the registration requirement but, nevertheless, chose not to register. The school's decision is final and cannot be appealed to the Department of Education.

Determining if Nonregistration was Knowing and Willful

Unless the school can document that the student meets one of the allowable exemptions regarding registration or can document that the student has served on active duty in the armed forces, the student must first write to the Selective Service so that he may receive a Status Information Letter addressing his failure to register. The student should provide as complete a description about his situation as possible: where he was living during the period when he should have registered, whether he was incarcerated or institutionalized, his citizenship status during the period, if applicable, and so on.

If the student receives a "general exemption letter" (codes E1-E7) or a "DOB before 1960" letter (code NR), the student is exempt from registration and may receive SFA funds. If the student receives any other type of letter, the school must determine (based on all relevant evidence) whether the student knowingly and willfully failed to

Selective Service Match

Result	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
Registration or exemption confirmed by Selective Service	Y		029 Your registration or your exemption status has been confirmed by Selective Service.	None
Applicant not in Selective Service database	N	C code	030 The Selective Service reported that you have not registered with them. If you are female or were born before 1960, please contact your FAA. Otherwise, a male who is required to register with Selective Service must be registered before aid can be disbursed. If you have not yet registered, are male and are 18 through 25 years of age you must either answer "Yes" to both items 28 and 29 on Part 2 of your SAR or obtain and complete a Selective Service Registration form, available at your local post office. If you believe you have already registered or are exempt, please contact the Selective Service at 847-688-6888 to resolve any problems regarding your registration status.	Before the school can pay the student, the school must have proof that the student is exempt or the student must provide confirmation that he is registered (that is, his Selective Service Registration Acknowledgement or letter of registration).
Student too young to be required to register	T		036 Selective Service records indicate that you are not required to be registered with them until within 30 days of your 18th birthday. If you have not yet initiated the registration process, you may either answer "Yes" to both items 28 and 29 on Part 2 of your SAR or obtain and complete a Selective Service Registration form available at your local post office. If you have already requested that you be registered they will process your request 30 days prior to your 18th birthday.	None as update is not required during the year

Selective Service Registration

Result	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
Name forwarded to Selective Service for registration	Y		031 We have forwarded your name to Selective Service for registration, as you requested.	None
Name forwarded to Selective Service for registration, student not old enough to register	T		028 We have forwarded your name to Selective Service for registration, as you requested. They will process your registration request 30 days prior to your 18th birthday.	None
Student asked to be registered, but either is too old or did not provide enough information	blank	C code	033 We could not send your name to Selective Service as you requested because you did not give us enough information, you are past the age limit for registration, or you did not sign your form. If you are at least 18 but not yet 26, you may register by answering "Yes" to both Items 28 and 29 on your SAR. You must also provide information for Items 1, 2, and 9. You may also register by obtaining and completing a Selective Service Registration form available at your local post office. If you are a male who has reached age 26, you cannot use the SAR to register. You must contact Selective Service at 847-688-6888 to resolve your registration status before you can receive Federal student aid. You are exempt from registering if born before 1960.	If the student is younger than 26, the student should make corrections and provide the missing information (first name, last name, or date of birth). The school should check the new output document for registration results. If the student is 26 or older, he can receive aid if the school has proof that he is exempt, or if he can provide evidence of registration. If the student is not registered or exempt, he can only receive aid if the school determines that he did not knowingly and willfully fail to register. (See "Failure to Register," page 90.)
Name forwarded to Selective Service for registration, but Selective Service did not complete registration process.	N		057 We forwarded your name to Selective Service for registration, as you requested. However, Selective Service did not complete registration for you because you did not answer "Yes" to Item 28. If you are male and have not yet registered, you may register by answering "Yes" to both Items 28 and 29 on your SAR. You may also register by obtaining and completing a Selective Service Registration Form, available at your local post office.	Before the school can pay the student, it must have proof that the student is exempt or the student must provide confirmation that he is registered (that is, his Selective Service Registration Acknowledgment or letter of registration).

register. The letter from Selective Service is part of the relevant evidence. For example, if the student received a letter indicating a compliance letter had been sent (code RL), this letter would be a negative factor when the school makes the determination. If the student received a "Military Service: Noncontinuous" letter (code NM), the school might reasonably determine that the student did not knowingly and willfully avoid registration.

Most of the Status Information Letters state that the final decision regarding the student eligibility rests with the agency awarding funds. For the purposes of the SFA Programs, the decision is made by the school, which represents the Department of Education. If the school's financial aid administrator determines that the student's failure to register was knowing and willful, the student loses SFA eligibility.

The school's decision is final and therefore cannot be appealed to the Department of Education. However, the Department will hear appeals from students who have provided their schools with proof of compliance with the registration requirement (i.e., that they are registered or exempt from registration) but who are still being denied federal student aid based on the registration requirement.

When deciding whether the student had knowingly and willfully failed to register, the school should consider the following factors:

- **Where the student lived when he was age 18 to 25.** For example, if a student was living abroad, it is more plausible that he would not come into contact with the requirement for registration.

- **Whether the student claims that he thought he was registered.** Mistakes in recordkeeping can occur. Correspondence indicating an attempt to register could form a basis for determining that the student did not knowingly and willfully fail to register. On the other hand, a letter from Selective Service stating that it received no response to correspondence sent to the student at a correct address would be a negative factor.

- **Why the student was not aware of the widely publicized requirement to register when he was age 18 through 25.**

Selective Service System

http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your inquiry as [illegible] whether you are required to register with Selective Service.

Based upon our records [illegible] the information you provided, you were not required to register with Selective Service because you are an alien who first entered the United States [illegible] or less before your 26th birthday.

SAMPLE

You should submit [illegible] letter to any agency concerned about your registration status with Selective Service.

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

pgm/pgm
431-35-6054
E1:LXA1 J R 3/97

Selective Service System

http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you were released from incarceration 30 days or less before your 26th birthday after having been continuously incarcerated, institutionalized or confined to the home since your 18th birthday.

SAMPLE

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

pgm/pgm
431-35-6054
E2:LXA2 J R 3/97

Selective Service System

http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you began incarceration 30 days or less after your 18th birthday and were incarcerated, institutionalized or confined to the home through your 26th birthday.

SAMPLE

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

pgm/pgm
431-35-6054
E3:LXA3 J R 3/97

Selective Service System
http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you have provided proof of continuous active duty military service through your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

SAMPLE

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

pgm/pgm
431-35-6054
E4:LXA4 J R 3/97

BEST COPY AVAILABLE

Selective Service System

http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you have provided proof of continuous incarceration, institutionalization or confinement to the home from your 18th birthday through your 26th birthday.

SAMPLE

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

pgm/pgm
431-35-6054
ES:LXA5 J R 3/97

Selective Service System

http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you entered the United States for the first time after your 26th birthday.

SAMPLE

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

pgm/pgm
431-35-6054
E6:LXA6 J R 3/97

Selective Service System

http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you entered the United States on a valid visa as a lawful non-immigrant before the age of 26, and remained in that status until your 26th birthday.

SAMPLE

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

pgm/pgm
431-35-6054
E7:LXA7 J R 3/97

Selective Service System
http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your letter concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System as required by the Military Selective Service Act.

The denial of any right, benefit, or privilege which is conditional on registration with the Selective Service System after July 20, 1980, is not applicable to a man born before January 1, 1960.

SAMPLE

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

pgm/pgm
431-35-6054
NR:LXAD J R 9/98

Selective Service System

http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your letter concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System as required by the Military Selective Service Act.

Although you stated in your letter you completed and submitted a registration form previously, we cannot determine why we did not receive it. You are not registered, and the law does not allow registration after age 26.

SAMPLE

Any explanation must be made to the agency administering the right, benefit, or privilege you seek. The final decision regarding your eligibility is within the authority of that agency. Therefore, you should submit this letter to them for consideration along with a copy of any documentation you believe may be helpful to your case.

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

pgm/pgm
431-35-6054
RR:LXAC J R 3/97

Selective Service System

http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your inquiry concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System as required by the Military Selective Service Act.

A search of our files reveals that you are not registered. You were required to register with the Selective Service within 30 days after your discharge from military service if you had not reached age 26 at that time. If you entered the military after reaching age 18, you should have already registered within 30 days of your 18th birthday. Registration after reaching age 26 is prohibited by law.

SAMPLE

Section 12(g) of the Military Selective Service Act (50 App. U.S.C. 462(g) reads as follows:

> "(g) A person may not be denied a right, privilege, or benefit under Federal law by reason of failure to present himself for and submit to registration under section 3 (of the Military Selective Service Act) if-
> (1) the requirement for the person to so register has terminated or become inapplicable to the person; and
> (2) the person shows by a preponderance of the evidence that their failure to register was not a knowing and willful failure to register."

The purpose of this provision is to clarify that a non-registrant is not to be denied any Federal benefit if he can demonstrate that his failure to register was not knowing or willful.

If you are being denied a right, benefit, or privilege because you have not registered with the Selective Service System and have served in the armed forces of the United States on active duty or in the Reserves or National Guard or enrolled in a Delayed Entry Program (DEP): evidence of your military service may serve to show that your failure to register was not intentional. You should submit this letter, along with any evidence of your military service, to that agency for its consideration. The agency administering the right, benefit, or privilege you seek will make the final decision regarding your eligibility.

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

BEST COPY AVAILABLE

pgm/pgm
431-35-6054
NM:LXAF J R 6/98

Selective Service System

http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your inquiry regarding your Selective Service registration status. You are not registered.

Our records indicate that we sent one or more letters reminding you of the requirement to register and urging you to do so.

Section 12(g) of the Military Selective Service Act (50 App. U.S.C. 462(g) reads as follows:

> "(g) A person may not be denied a right, privilege, or benefit under Federal law by reason of failure to present himself for and submit to registration under section 3 (of the Military Selective Service Act) if-
> (1) the requirement for the person to so register has terminated or become inapplicable to the person; and
> (2) the person shows by a preponderance of the evidence that their failure to register was not a knowing and willful failure to register."

SAMPLE

The purpose of this provision is to clarify that a non-registrant is not to be denied any Federal benefit if he can demonstrate that his failure to register was not knowing or willful.

Any explanation to justify your failure to register must be made to the agency administering the right, benefit, or privilege you seek for which Selective Service System registration is required. Therefore, you should submit this letter to them for consideration along with a copy of any documentation you believe may be helpful to your case. The final decision regarding your eligibility is within the authority of that agency.

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

pgm/pgm
431-35-6054
RL:LXDA J R 6/98

Selective Service System

http://www.sss.gov

April 26, 1999

SIL
Mr. Lindsay Calvin Johnson
Rt 1 Fall Branch Road
Blountville, TN 37617

Dear Mr. Johnson:

We have received your inquiry concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System. A search of our files, and an examination of the information you provided reveal that you were required to register with Selective Service, but have not registered.

Section 12(g) of the Military Selective Service Act (50 App. U.S.C. 462(g) reads as follows:

> "(g) A person may not be denied a right, privilege, or benefit under Federal law by reason of failure to present himself for and submit to registration under section 3 (of the Military Selective Service Act) if-
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> (1) the requirement for the person to so register has terminated or become inapplicable to the person; and
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> (2) the person shows by a preponderance of the evidence that their failure to register was not a knowing and willful failure to register."

SAMPLE

The purpose of this provision is to clarify that a non-registrant is not to be denied any Federal benefit if he can demonstrate that his failure to register was not knowing or willful.

Any explanation to justify your failure to register must be made to the agency administering the right, benefit, or privilege you seek. You should submit this letter to them for consideration along with a copy of any documentation you believe may be helpful to your case. The final decision regarding your eligibility is within the authority of that agency.

Sincerely,

Lyle A. Wilkes
Director, Data Management Center

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CHAPTER 6

About the Application

Because the application is the first step in the financial aid process, it's important that it be completed correctly. In this chapter, we discuss some of the more complex parts of the application.

DEPENDENCY STATUS

If the student is considered to be dependent on his or her parents, information on the income (and assets, if applicable) of the parents must be collected on the financial aid application, and a parental contribution will be added to the student's contribution to determine the EFC. If the student meets certain criteria, he or she is automatically considered to be independent. In unusual cases, an aid administrator can determine that a student who doesn't meet the criteria should still be treated as an independent student.

Independent Student Definition Cite
Sec. 480(d)

Independence Criteria

For the 1999-2000 award year, a student is automatically independent if he or she meets one of the following criteria:

- The student was born before January 1, 1976.
- The student is a graduate or professional student (see "Graduate or professional," page 108).
- The student is married on the date he or she applies.
- The student is an orphan or a ward of the court (or has been a ward of the court until reaching the age of 18).
- The student is a veteran of the U.S. armed forces (see "Veteran," page 108).
- The student has certain dependents other than a spouse (see "Legal dependents," page 110).

Note that a student's living situation (that is, whether the student lives with his or her parents) does not affect the student's dependency status.

Graduate or professional

The FAFSA asks the student if he or she will be working on a degree beyond a bachelor's degree in the 1999-2000 school year. A student who answers "Yes" to this question is a graduate or professional student.

Graduate and professional students aren't eligible for Pell, so a student who answers "Yes" to this question on the application will be unable to receive a Pell. If the student incorrectly said he or she was a graduate student, he or she must submit a correction before he or she can get a Pell.

A student whose status will change during the award year can apply as a graduate student for the entire year. The student will be unable to receive a Pell for the part of the year in which he or she is an undergraduate. If a dependent student becomes a graduate student during the year, he or she should submit a correction updating his or her dependency status (see Chapter 9 of this publication for more information on updating).

Married

If the student's relationship meets the criteria for common-law marriage in his or her state, the student is considered to be married. A student who is married but separated is considered married for the purposes of determining dependency status, not divorced or single.

Marital status can't be projected and the application must be filled out according to the student's marital status at the time. If the student is married (without separation) and a divorce is planned, the student must file as married. If the student is engaged to be married before the end of the award year, the student must still file as unmarried, unless he or she waits until after the marriage to complete the FAFSA.

Orphan

The student is an orphan if both his or her parents are dead and the student doesn't have an adoptive parent. In previous years, if both the student's parents were dead and the student had a legal guardian, the student was not considered an orphan. Beginning with the 1999-2000 award year, such a student is considered an orphan.

Ward of the court

Any student who is declared a ward of the court before the end of the award year, regardless of the student's living arrangements, is considered to be an independent student for that award year. If the student has already applied as a dependent student, he or she must update his or her status (see Chapter 9 of this publication). Note that a student is not considered a ward of the court based only on being incarcerated.

Veteran

Veterans include those who have engaged in active service in the U.S. Army, Navy, Air Force, Marines or Coast Guard and were released under a condition other than dishonorable. There is no minimum amount of time the student has to have served to be a veteran, but it does have to be active service.

The application also tells students to answer "Yes" to the question about veteran status if they aren't yet a veteran but will be by June 30, 2000. Students who attended a U.S. military academy but withdrew in good standing are also counted as veterans, but those who are currently attending a U.S. military academy are not. ROTC students aren't veterans either.

Members of the National Guard or Reserves are not considered members of the U.S. Armed Forces, nor is training considered active military duty. Members of the National Guard and Reserves who serve on active duty for non-training purposes are veterans, even if they remain reservists throughout their active duty service.

Veteran match

Beginning with the 1999-2000 award year, the Department has added a match with the Department of Veterans Affairs (VA) to confirm a student's veteran status. If the student answers "Yes" to the question about veteran status, the Department will send the student's information to the VA for matching. The VA will see whether the student is a veteran, and send the results back to the CPS. The match results are provided by a match flag in the FAA Information Section of the output document.

- **Successful match.** There won't be any comments on the output document if the VA confirms that the student is a veteran.
- **Not a veteran.** If the VA reports that the student isn't a veteran, the CPS assumes that the answer to the veteran question is "No." There will be a comment on the output document for the student explaining the problem. If the VA results are wrong, the student should contact a regional VA office to have the records corrected and get proper documentation. However, if the student answered "Yes" to one of the other dependency questions, he or she can receive student aid without resolving the problem. If the student answered "No" to all the other dependency questions, he or she is treated like a dependent student until the VA records are updated. Once the records are updated, the student can submit a correction marking the answer to the veteran question as "Yes" to have the VA perform the match again. Otherwise, the student will need to provide parental data. If the student has documentation (such as a DD214 form) showing that he or she is a veteran, the school can do a dependency override to allow the student to receive aid before the problem with the VA database is resolved.
- **Not on database.** If the student isn't listed on the VA database, the CPS assumes that the answer to the veteran question is "No." Again, there will be a comment explaining the problem on the output document. A student who answered "Yes" to one of the other dependency questions doesn't need

Match Flag for Successful Veteran Match
1

Match Flag for Not a Veteran
2

Comments for Not a Veteran
162, 163

Early Exit Cadets
Students who attend a service academy but are honorably discharged prior to commission are veterans for SFA purposes, but aren't veterans for VA purposes. These students will receive match results showing that they aren't veterans. Just like other students who receive these match results, if the early exit cadet meets one of the other criteria for independence, then no resolution is required. If, however, an early exit cadet meets no other independence criteria, the school will have to perform a dependency override to make the student independent. Of course, the school must have appropriate documentation of the student's situation.

Match Flag for Not on Database
3

Comments for Not on Database
173, 174

to resolve the problem before receiving student aid, although he or she should have the VA correct its database if it's wrong. A student who answered "No" to the other dependency questions is treated like a dependent student until he or she resolves the problem with the VA. The student must either provide parental data or resolve the problem with the VA and submit a correction marking the answer to the veteran question as "Yes" to have his or her veteran status confirmed. As mentioned above, the school can also do a dependency override if the student provides documentation that he or she is a veteran.

- **Active duty.** If the student is currently on active duty, he or she isn't a veteran yet. However, if the student's active duty status will end by June 30, 2000, he or she is counted as a veteran for purposes of dependency status. Because the student might be a veteran later in the year, the CPS doesn't assume that the answer to the veteran question is "No." A student who's already independent by one of the other independence criteria doesn't have to resolve this situation. Otherwise, the student must provide documentation that he or she will be released from active duty by June 30, 2000 before the school can disburse aid.

Legal dependents

The application asks if the student has children who receive more than half their support from the student. The child doesn't have to live with the student, and can be an adopted child. A person for whom the student is legal guardian is not considered the student's child.

A student whose unborn child will be born before the end of the award year **and** supported by the student can answer "Yes" to this question.

The application also asks if the student has any dependents who live with the student, receive more than half their support from the student, and will continue to receive that support through the end of the award year. An otherwise dependent student would—if she or he answers "Yes" to this question—be considered an independent student, regardless of the nature of the relationship between the student and the dependent.

For application purposes, Temporary Assistance to Needy Families (TANF) is considered income. A student may be considered independent on the basis of legal dependents for whom he or she receives such assistance. (The Department doesn't follow the IRS guidelines which state that such recipients cannot claim their children as legal dependents because the assistance program provides more than 50% of the children's support.)

Match Flag for Active Duty
4

Comment for Active Duty
180

Legal Dependent Examples

George is living with Emma. George isn't employed, and has no income, so Emma is completely supporting him. Emma plans to continue supporting George through the end of the award year, so she answers "Yes" to the legal dependent question.

Laurel is her cousin Paul's legal guardian. Paul receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel on his behalf. These benefits provide more than half of Paul's support. Because Paul lives with Laurel, and will be supported by her (through the Social Security benefits) throughout the 1999-2000 award year, Laurel answers "Yes" to the legal dependent question. Note that if Paul didn't live with Laurel, Laurel would have to answer "No" to the question, even though she's supporting him.

Veteran Status Match (continued)

Result	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
Still on active duty.	4	C code	180 The Department of Veterans Affairs (VA) has confirmed that you are currently serving in the U.S. Armed Forces. You indicated on your application that you will be released from active duty by June 30, 2000. You must provide documentation of this to your FAA before you can receive Federal student aid.	A student who's already independent by one of the other independence criteria doesn't have to resolve this match problem. Otherwise, the student must provide documentation to the school that shows his or her active duty status will end by June 30, 2000. Acceptable documentation would be upcoming release orders from a military branch, typically in memorandum format or letter, stating intent to release.

Dependency Overrides

In unusual circumstances, a student who does not meet any of the dependency criteria may still be considered to be independent on the basis of the financial aid administrator's professional judgment. The aid administrator must make this decision on an individual (case-by-case) basis and must document the reason(s) for the decision. (See Chapter 9 of this publication for more on professional judgment in general.) To allow the dependent student's application to be processed without the parents' information, the aid administrator must perform a dependency override.

The parents' unwillingness to assist the student isn't, in and of itself, grounds for a dependency override. Nor can a school perform a dependency override solely because the parents are unwilling to provide information on the application or information needed for verification.

An aid administrator may override only from dependent to independent. He or she can't require a student who meets one of the criteria for independence to file as a dependent. However, if an independent student is receiving substantial support from his or her parents, a school may use professional judgment to adjust one or more of the FAFSA data elements, such as untaxed income.

A student receiving a dependency override on his or her initial application answers the questions on the FAFSA as if he or she was independent. If the school is filing the application for the student through EDE, the aid administrator can authorize the dependency override by putting in a Dependency Override code of "1" (see the *Application Processing Desk Reference* or the *EDE Technical Reference* for more information). To authorize a dependency override on a paper FAFSA, the aid administrator marks the oval for an override, labeled

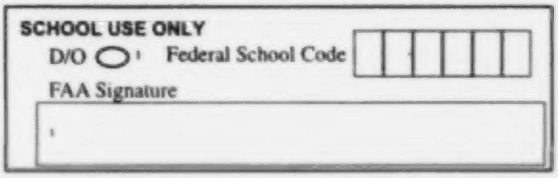
Dependency Override Cite
Sec. 480(d)(7)

Dependency Override Example
Chavo is living with his uncle Eddy. He hasn't seen either of his parents since he was five, and has lived with Eddy all that time. Chavo wants to receive aid to attend Sarven Technical Institute, and can't provide any information on his parents. Sarven asks Chavo to provide information about his relationship with his parents. He provides a letter from his high school counselor explaining that Chavo isn't in contact with his parents, and that the school has dealt with Eddy as Chavo's guardian. He also has letters from other friends of the family explaining the family problems, and tax forms showing that Eddy claims Chavo as his dependent. The FAA at Sarven looks at all the information, and decides that with these circumstances Chavo shouldn't be treated as dependent on his parents, and so performs a dependency override on his application.

Independent Student with Parental Support Example

Doug is a graduate student at Guerrero University. Because he's a graduate student, he's independent. However, he's still living with his parents, and has no income of his own. Although the FAA at Guerrero can't make Doug a dependent student, she decides to add an amount to his untaxed income as reported in Question 47 to account for the living expenses his parents are paying.

FAFSA School Use Only Box



SCHOOL USE ONLY

D/O ○ 1 Federal School Code

FAA Signature

"D/O," in the School Use Only box on Page 6, fills in the school's Federal School Code, and signs. A separate letter attached to the application (in lieu of making the override) is **not** acceptable.

A financial aid administrator may use EDE or the SAR to override the dependency status of a student who has already applied. In EDE, the aid administrator needs to put in a Dependency Override code of "1." On the SAR, the aid administrator should fill in the oval marked "1" after the D/O label in the School Use Only box, fill in the school's Federal School Code, and sign.

A financial aid administrator may also use EDE or the SAR to cancel a dependency override that another school performed. In EDE, the aid administrator should change the Dependency Override code to "2." On the SAR, he or she should fill in the oval marked "2" after the D/O label, fill in the school's Federal School Code, and sign.

HOUSEHOLD INFORMATION

An independent student provides information on how many people are in his or her household and the number of those people who will be attending college. A dependent student provides the same information about his or her parents' household, as well as some general information about the parents.

Definition of "Parent"

The term "parent" doesn't necessarily mean the student's biological parents. There are several instances in which a person other than a student's biological parent is treated as the student's parent. If this person is considered a parent to the student, then the parental questions on the application must be answered as they apply to that person.

Adoptive and foster parents

An adoptive parent is treated just like a biological parent. A foster parent is not treated as a parent on the application.

Legal guardians and other relatives

A legal guardian is no longer treated as a parent in any circumstance. If the student's parents are dead, the student is independent. Otherwise, a dependent student must report information about his or her parents even if he or she has a legal guardian, unless the school performs a dependency override.

Veteran Status Match

Result	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
VA confirmed veteran status	1		No comment.	None
Not a qualifying veteran, and not otherwise independent.	2	C code	162 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for receiving Federal student aid for the 1999-2000 school year. If this is correct, you should have provided your parents' information in Step Four. If you did not, you must provide the information in Step Four and you and your parent must sign the Certification statement on Part 2 of your SAR. If you believe you are or will be a qualifying veteran, you must contact a VA office to resolve this problem.	In this situation, CPS assumes that the answer to the veteran question is "No." If the student didn't provide the parents' data and signature on the application, his or her application will be rejected (Reject 15 and/or Reject 2). If the match results are wrong, the student should contact a regional VA office to have VA records updated. The student will then need to correct the veteran question to "Yes" so that his or her information will be rematched with the VA database. If the student has documentation that clearly shows that he or she is a veteran, the school can perform a dependency override, changing the student's status to independent. The student will then be able to receive SFA assistance while he or she is resolving the problem with the VA, instead of waiting until the problem is resolved. As documentation, the student may provide the DD214 form showing that the terms of the separation from military service are under honorable conditions and separation reason is satisfactory.
Not a qualifying veteran, but independent for other reasons.	2		163 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for receiving Federal student aid for the 1999-2000 school year. If this is not correct, you must contact a VA office to resolve this problem.	Because the student is independent for other reasons, he or she can receive aid without resolving this match problem. If the student is a veteran, he or she may contact a regional VA office to have VA records updated. If the student submits a correction, marking the answer to the veteran question "Yes," his or her information will be rematched with the VA database.

Veteran Status Match (continued)

Result	*Match flag*	*"C" code or rejected application*	*Comment number and text*	*Action needed*
Not in VA database and not otherwise independent.	3	C code	173 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for receiving Federal student aid for the 1999-2000 school year. If this is correct, you should have provided your parents' information in Step Four. If you did not, you must provide the information in Step Four and you and your parent must sign the Certification statement on Part 2 of your SAR. If you believe you are or will be a qualifying veteran, you must contact a VA office to resolve this problem.	In this situation, CPS assumes that the answer to the veteran question is "No." If the student didn't provide the parents' data and signature on the application, his or her application will be rejected (Reject 15 and/or Reject 2). If the match results are wrong, it's likely that the military branch or Department of Defense has not sent the data to VA. The student should contact a regional VA office to have VA records updated. The student will then need to correct the veteran question to "Yes" so that his or her information will be rematched with the VA database. If the student has documentation that clearly shows that he or she is a veteran, the school can perform a dependency override, changing the student's status to independent. The student will then be able to receive SFA assistance while he or she is resolving the problem with the VA, instead of waiting until the problem is resolved. As documentation, the student may provide the DD214 form showing that the terms of the separation from military service are under honorable conditions and separation reason is satisfactory.
Not in VA database but independent for other reasons.	3		174 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for receiving Federal student aid for the 1999-2000 school year. If this is not correct, you must contact a VA office to resolve this problem.	Because the student is independent for other reasons, he or she can receive aid without resolving this match problem. It's likely that the military branch or Department of Defense has not sent the data back to VA. If the student is a veteran, he or she may contact a regional VA office to have VA records updated. If the student submits a correction, marking the answer to the veteran question "Yes," his or her information will be rematched with the VA database.

If a student is living with his or her grandparents or other relatives, the same principle applies. Unless the relatives have adopted the student, the income of the relatives should not be reported on the FAFSA. The school could, if it wished, consider support the student receives from relatives or others to be unusual circumstances, and use professional judgment to adjust the student's data. Of course, as with any use of professional judgment, the school can only make this type of adjustment on a case-by-case basis (see Chapter 9 of this publication for more on professional judgment).

Stepparents

A stepparent is treated like a biological parent if the stepparent is married, as of the date of application, to a student's biological parent whose information will be reported on the FAFSA or if the stepparent has legally adopted the student. **There are no exceptions.** The federal need analysis system doesn't recognize prenuptial agreements. If the biological parent has died and the stepparent survives, then the student is independent (assuming the student is not dependent on the surviving biological parent), unless the stepparent legally adopted the student. Note that the stepparent's income information for the entire base year, 1998, must be reported even if the parent and stepparent were not married until after 1998.

Death, Separation, Divorce

In cases of death, separation, or divorce, a student must answer parental questions on the FAFSA as they apply to the surviving or responsible parent. A student doesn't report information about a spouse if the spouse is dead or if the student and spouse are separated or divorced.

Death of parent

If one, but not both, of the student's parents has died, the student will answer the parental questions about the surviving parent and won't report any financial information for the deceased parent on the FAFSA. If both the student's parents are dead when the student fills out the FAFSA, the student must answer "yes" to Question 56, making the student independent. Remember that an adoptive parent counts as a parent too, but a legal guardian doesn't. If the last surviving parent dies after the FAFSA has been filed, the student must update his or her dependency status and all other information as appropriate (see Chapter 9 for more on updating).

Divorce of parents

If the student's parents are divorced, the student should report the information of only one parent, the parent that he or she lived with the most during the past year. **It doesn't make a difference who claims the student as an exemption for tax purposes.** If the student didn't live with either parent or lived equally with each parent, then the parental information must be provided for the parent from whom the student received the most financial support or the parent from whom the student received the most support the last time support was given.

Student Living with Relatives Example

Malia's father is dead, and her mother can't support her, so Malia's living with her grandmother. Her mother doesn't pay any money for her support. Malia doesn't meet any of the independence criteria, so she has to provide parental information. Because her grandmother hasn't adopted her, her grandmother isn't her parent. Malia will have to provide information about her mother on the form, unless her school decides to do a dependency override.

Stepparent Example

Meurig's parents divorced when he was seven; his mother later remarried, and Meurig lived with his mother and stepfather. His stepfather didn't adopt him. His mother died in 1998, but his father is still living. Meurig doesn't meet any of the independence criteria, so he's a dependent student. Because his father is his only surviving parent, Meurig needs to report his father's information on the form, even though he's still living with and being supported by his stepfather.

Death, Separation, Divorce Cite

Sec. 475(f)

Divorce Example

Marta's parents have recently divorced. Marta is 22, and doesn't meet any of the independence criteria. She hasn't lived with her parents since she was 18, so she didn't live with either parent in the past year. Also, neither parent provided support in the past year. The last time she received support from her parents was when she lived with them, and they were still married. She didn't receive money from each parent separately, but her father's income at the time was larger and he contributed more money to the overall household expenses. Therefore, Marta determines that she received more support from her father the last time she received support, and provides her father's income on the form.

Household Size Cites

Sec. 480(k), (l)

Support

Support includes money, gifts, loans, housing, food, clothing, car payments or expenses, medical and dental care, and payment of college costs.

Independent Student Household Size Example

Eddy is an independent student. He was married, but now he and his wife have separated. He's paying child support, but it isn't enough to provide more than half his children's support, so he can't include his children in his household size. He's also supporting his nephew Chavo, and will support him for the entire award year. Because Chavo lives with Eddy, he can be counted in the household size. Therefore, Eddy's household size is 2.

Chavo is also independent, as the result of a dependency override. Although he's living with Eddy, he's not providing any support to Eddy. Chavo's household size is 1.

Separation

A couple doesn't have to be legally separated in order to be considered separated. The couple may consider themselves informally separated when one of the partners has left the household for an indefinite period of time. If the partners live together, they can't be considered informally separated. However, in some states, a couple can be considered legally separated even if they still live together. If the couple's state allows this, and they are legally separated, then they are considered separated though they are still living together. For a dependent student, use the same rules as for divorce to determine which parent's information must be reported.

Common-Law Marriage

If a couple live together and have not been formally married but meet the criteria in their state for a common-law marriage, their status should be reported as married on the application. If the state doesn't consider the situation to be a common-law marriage, then they aren't married. A dependent student should follow the rules for divorce to determine which parent's information should be reported. Check with the appropriate state agency concerning the definition of a common-law marriage.

Household Size

The following persons are included in the household size of an independent student:

- the student;
- the student's spouse, excluding a spouse not living in the household as a result of death, separation, or divorce;
- the student's children, regardless of where they live, if they received or will receive more than half of their support from the student's household from July 1, 1999 through June 30, 2000;
- the student's unborn child, if that child will be born before July 1, 2000 and the student's household will provide more than half of the child's support from the projected date of birth to the end of the award year (if there is a medical determination of a multiple birth, then all expected children can be included); and
- other persons, if they live with the student **and** receive more than half of their support from the applicant's household at the time of application and will continue to receive that support for the entire 1999-2000 award year (July 1, 1999 through June 30, 2000).

The following persons may be included in the household size of a dependent student's parents:

- the student (even if the student does not live with the parents);
- the student's parent(s), excluding a parent not living in the household as a result of death, separation, or divorce;
- the student's siblings, regardless of where they live, if they received or will receive more than half of their support from the student's parent(s) between July 1, 1999 and June 30, 2000 **or** if they would be required to report parental information on the FAFSA[1];
- the student's children, if they received or will receive more than half of their support from the student's parent(s) from July 1, 1999 through June 30, 2000 (even if the children don't live with the student's parents, they must be counted if they meet this criteria);
- the student's parents' unborn child or the student's unborn child, if that child will be born before July 1, 2000 and the student's parents will provide more than half of the child's support from the projected date of birth until the award year's end (if there is a medical determination of a multiple birth, then all expected children can be included); and
- other persons, if they live with **and** receive more than half of their support from the student's parent(s) at the time of application and will continue to receive that support for the entire 1999-2000 award year (July 1, 1999 through June 30, 2000).

A student should remember that financial information for a stepparent must be reported on the form and that the stepparent must be included in household size.

For the purpose of including children in the household size, the "support" test is used (rather than a residency requirement) because there may be situations in which a parent supports a child who does not live with him or her, especially in cases where the parent is divorced or separated. In such cases, the parent who provides more than half of the child's support may claim the child in his or her household size. If the parent receives benefits (such as Social Security or AFDC payments) in the child's name, these benefits must be counted as parental support to the child.

Dependent Student Household Size Example

Lydia is a dependent student. Her parents are married, so they are both included in the household size. Her sister Jane is 26, but is still being supported by her parents, so she is also included in the household size. Her sister Elizabeth is attending college, but is an independent student, and isn't supported by the parents, so she isn't included in the household size. Her sister Susan is not attending college, but is working and supporting herself. However, if she were to apply for student aid, she would be considered a dependent student, so she is included in the household size. Lydia's sister Kitty is in college, and is a dependent student as well, and is included in the household size. Therefore, the household size that Lydia reports for her parents is 6.

SFA and IRS Household Rules

The rules used for determining whether or not someone can be counted in the household for SFA purposes aren't the same as the IRS rules for determining household members or dependents. In particular, whether a divorced or separated parent claims a child as a dependent on the tax form is irrelevant when deciding whose household the child belongs to for SFA purposes.

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[1] The sibling doesn't have to actually be a student or apply for federal student aid to meet this exception.

Number in College Cite
Sec. 474(b)(3)

Number in College

The student should **always** be included in the number in college. Other members of the household are counted in the number in college if they are or will be enrolled at least half time in a degree or certificate program during the award year. The definition of half-time enrollment for this question must meet the federal requirements, even if the school defines half time differently. (See Chapter 1 of this publication for information on enrollment status requirements.) In addition, the household member must be working toward a degree or certificate leading to a recognized education credential at a school that's eligible for any of the SFA programs.

For the 1999-2000 award year, parents of dependent students are still included in the number in college if they meet the requirements in the paragraph above. However, as a result of Reauthorization, parents will be excluded from the number in college for 2000-2001 and following years. However, schools will be able to use professional judgment to make adjustments for students with parents in college.

Income and Assets Cites
Sec. 480(a), (b), (f), (g)

INCOME AND ASSETS

Students need to provide information about their income and assets on the application. Dependent students also provide information about their parents' income and assets. The form collects information on the base-year income and tax information. The base year for 1999-2000 is the 1998 tax year. Students also provide information about their (and their parents') assets as of the date the application is completed. Beginning with the 1999-2000 award year, students only report the net worth of assets, instead of reporting the value and debt.

In previous years, students filled out a separate worksheet to determine whether they met the simplified needs test and so could omit asset information. Beginning with the 1999-2000 application, the student no longer has to decide whether or not he or she needs to provide asset information. Instead, all students provide the information, and the CPS makes the adjustment for the student (see Chapter 7 of this publication for details).

If the student (or the student's parent) wasn't married in 1998, but is married at the time the application is completed, the student or parent also needs to provide income and asset information for his or her spouse. If the student or the student's parent was married in 1998, but is now separated or divorced, or the spouse has died, the student or parent doesn't provide income and asset information for his or her spouse, even though that information may be on the 1998 tax forms.

Information from Tax Forms

The student (and parents, for a dependent student) has to report whether a tax form has been or will be filed, and which form was or will be used. Previously, the Department instructed students to report that a 1040A or 1040EZ was used if the student or parents were eligible to use one of those forms but used a 1040 instead. Because there's now

Estimated AGI Worksheet

(Note: Use this worksheet to estimate 1998 Adjusted Gross Income [AGI] if you do not have a tax return.)	***For question 41 Student/Spouse***	***For question 64 Parent(s)***
(Wages, salaries, tips, etc.	$ ________ .00	$ ________ .00
Interest income	+ ________ .00	+ ________ .00
Dividends	+ ________ .00	+ ________ .00
Other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents, unemployment compensation, Social Security, Railroad Retirement, and all other taxable income)	+ ________ .00	+ ________ .00
Add all of the numbers in the column	= ________ .00	= ________ .00
Subtract IRS-allowable adjustments to income (payments to IRA and Keogh Plans, one half of self-employment tax, self-employed health insurance deduction, interest penalty on early withdrawal of savings, and alimony paid)	— ________ .00	— ________ .00
TOTAL — Write this amount in question 41 and/or 64:	$ ________ .00	$ ________ .00

a separate question that asks if they were eligible to file a 1040A or 1040EZ, students should indicate which tax form was actually filed.

The FAFSA asks for several items from the tax return: the adjusted gross income (AGI), the total income tax, the exemptions, and the earned income credit. Dependent students report these items for their parents as well. The FAFSA tells students which tax form line item has the information they need to enter. It will be easiest for the students to complete these income and tax-related questions if they've already completed their tax returns. The student can also estimate answers, but if the estimated information is wrong, the student must submit a correction when the tax return is filed. The FAFSA used to provide a worksheet to help the student estimate AGI. Instead of that worksheet, the student can use tax forms to estimate the AGI, or can use the worksheet we've provided here.

Worksheets A and B on the FAFSA also asks for certain items from the tax return and W-2s. The worksheets also tell students which line items to copy the information from.

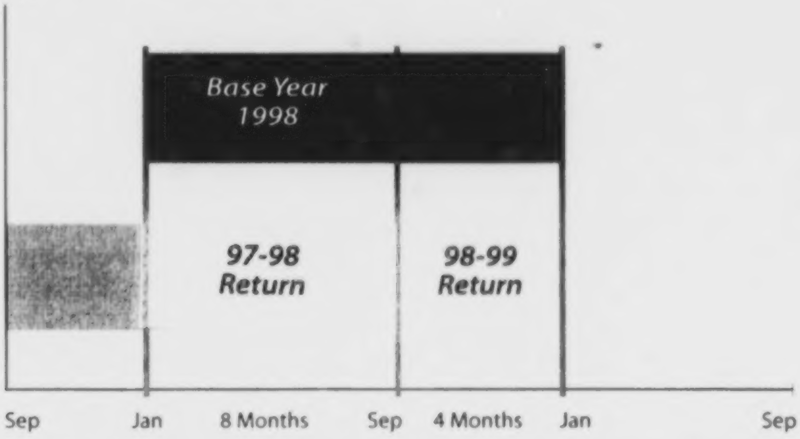
If the student (or parent) filed a joint return but is now divorced or separated, he or she won't be able to copy the information from the tax forms. Instead, he or she must figure out how much of the income

Fiscal Year Return Example

Owen's parents file a fiscal year tax return. They start their fiscal year in September. The return they filed for the fiscal year starting in September 1997 includes eight months in 1998. The return they'll file for the fiscal year starting in September 1998 includes four months in 1998. Therefore, they should use the information from the tax return for the fiscal year that started in September 1997.

Fiscal Year Example

Owen's parents filed a fiscal tax return for the period from September 1 to August 31. Because the larger portion of the base year (1998) is covered by the 97-98 fiscal return, Owen should report information from that return on the application.



and taxes paid belongs to him or her. See Chapter 8, "Using a Joint Return to Figure Individual AGI and Taxes Paid," page 197, for more discussion on methods for calculating this information.

Fiscal year returns

For a fiscal year tax return (as opposed to a return for the calendar year), the student should report information from the fiscal year tax return that includes the greater number of months in 1998. The student shouldn't try to figure out what the income and tax information for calendar year 1998 was.

Tax forms other than IRS forms

Students who filed tax forms other than the IRS forms, such as foreign or Puerto Rican returns, used to be told to report that they filed one of the IRS forms. The application now specifically asks if the student filed a tax return for Puerto Rico, Guam, American Samoa, the Virgin Islands, the Republic of the Marshall Islands, the Federal States of Micronesia, or the Republic of Palau, or a foreign tax return. The student now reports which form was actually filed.

For the four items that need to be copied from the form, the student has to determine which line items from his or her tax form correspond most closely to those on the IRS forms. Students filing a foreign tax return need to convert the income and tax amounts to U.S. dollars, using the exchange rate at the time of application.

Nontaxfilers

If a student, his or her parents, or his or her spouse don't file and are not required to file a tax return, they still must report their earnings. In this case, W-2 forms and other such records should be used to answer the questions, although the student should follow the

FAFSA instructions and skip the questions that only ask for information from the tax return.

Worksheet A tax form items

Worksheet A collects information about untaxed income and benefits. Both parents and students report these items. Again, a student who hasn't filed will have to estimate these amounts, and students or parents may need to separate information from a joint return. Worksheet A items that are answered from tax forms are:

- **Payments to tax-deferred or sheltered pension and savings plans (paid directly or withheld from earnings).** This includes untaxed portions of 401(k) and 403(b) plans. These amounts are listed on W-2 forms. These types of payments are listed in Box 13 of the W-2, and will have one of the following codes: D, E, F, G, or S. Note that employer contributions to these plans shouldn't be reported as an untaxed benefit.

- **Deductible IRA or Keogh payments.** If the student, spouse, or parent can exclude payments to an IRA or Keogh from taxation, those payments are reported as untaxed income. These amounts are reported on the tax return. Note that payments into Education IRAs aren't deductible, so they shouldn't be included in this amount.

- **Tax exempt interest income.** Certain types of interest, such as interest on municipal bonds, are tax exempt. This amount is on the tax return.

- **Foreign income exclusion.** If a U.S. tax filer earns foreign income, part of that income might be excluded from taxable income. To exclude the income, the student or parent files a Form 2555 or 2555EZ. This income counts as untaxed income, so the form tells the student to copy the amount from line 43 of Form 2555 (or line 18 of Form 2555EZ) into Worksheet A.

- **Untaxed portions of pensions.** Certain payments from IRAs or pensions are excluded from taxation. A tax filer calculates how much of his or her IRA distribution or pension payment is taxable when he or she completes the tax return. The student needs to report these untaxed amounts on the FAFSA. Worksheet A explains how to calculate the amount to report from the tax return.

- **Credit for Federal tax on special fuels—nonfarmers only.** Certain tax filers can claim a tax credit for excise taxes they paid during the year on some kinds of fuels. Form 4136 is used to claim this credit, and Worksheet A directs the student to copy information from that form. **The 1999-2000 FAFSA lists the wrong line item for this information; students should use the amount from line 9 of Form 4136 for this item on Worksheet A.**

Worksheet B tax form items

Worksheet B collects information on items that are included in the taxable income on the tax return, but are excluded from income for student aid purposes. The student doesn't subtract these from the AGI reported on the form, but lists them separately on Worksheet B. The total from the worksheet is then reported on the FAFSA. The CPS subtracts that total from the AGI. Having the AGI from the tax return listed on the application makes the verification process easier.

Worksheet B specifically lists tax form numbers for only one item, the education tax credits, but information for several other items may be on tax forms. The items that can be found on tax forms are:

- **Education tax credits.** These are the Hope and Lifetime Learning tax credits; the application tells students where this information is on the tax return.

- **Taxable earnings for FWS or other need-based work programs.** The student may have received W-2s for these earnings. Otherwise, students will need to use any other records they received showing how much they earned.

- **Student grant and scholarship aid.** A student includes the amount of grants and scholarships he or she received that's more than his or her tuition, fees, books, and supplies as part of his or her taxable income. The taxfiler is also supposed to write this amount separately on the tax form next to the line where wages and other earnings are reported. If the information was reported this way, the student [illegible] copy that amount from the tax form.

Income Information from Oth[illegible]urces

The only income items remai[illegible] are those reported on Worksheets A and B. As mentione[illegible]ove, Worksheet A collects information about untaxed income [illegible]d benefits, and Worksheet B collects information on items to be excluded from taxable income.

Untaxed income—Worksheet A

In general, any income not reported on the tax return should be listed on Worksheet A. Worksheet A lists a number of specific types of untaxed income; these include:

- **Child support received for all children.**

- **Welfare benefits, including Temporary Assistance for Needy Families (TANF).** TANF is the name for the state-administered plans that replaced Aid to Families with Dependent Children (AFDC or ADC) payments.

- **Untaxed Social Security benefits.**

- **Housing, food, and other living allowances.** Some people, particularly clergy and military personnel, receive these kinds of allowances as compensation for their jobs. If the parent or student receives money to pay rent, he or she should list the amount of money received. If the parent receives use of a house or apartment, he or she should report the amount that he or she would pay to rent a comparable house or apartment (market value). Similarly, if the student received free room and board in 1998 for a job that was not awarded as student financial aid, the student must report the value of the room and board as untaxed income. (This category, "housing allowances," excludes rent subsidies for low-income housing.)

- **Worker's compensation.**

- **Veterans' noneducation benefits.** This includes benefits such as Death Pension or Dependency & Indemnity Compensation (DIC).

- **Cash or money paid on the student's behalf.** The student reports any cash support he or she received, except that a dependent student doesn't report support received from his or her parents. The parents don't report cash support that they received.

Worksheet A also has a line for the student to report other types of untaxed income. Any other type of untaxed income the student received that isn't reported elsewhere is reported here. Some other types of untaxed income are: VA Educational Work-Study allowances, interest income on Education IRAs, untaxed portions of Railroad Retirement Benefits, Black Lung Benefits, Refugee Assistance, the untaxed portion of capital gains, and foreign income that wasn't taxed by any government.

Items that shouldn't be included on Worksheet A

There are certain types of income that aren't counted as income in calculating the student's EFC. Two of the major income types that aren't reported are student financial aid and in-kind income. Student aid is taken into account in packaging aid (see Chapter 10 of this publication), and so shouldn't be counted as income. Note that student aid included in the AGI is reported separately as an exclusion so that it can be subtracted from income.

Other types of income that aren't reported on Worksheet A are:

- **Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act.**

- **Per capita payments to Native Americans.** Per capita payments received in 1998 from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless they exceed $2,000. Thus, if an individual payment were $1,500, it would not be reported on an application. However, if the payment were

Examples of In-Kind Income

- *Food Stamp Program*
- *Women, Infants, and Children Program (WIC)*
- *Food Distribution Program*
- *National School Lunch and School Breakfast programs*
- *Commodity Supplemental Food Program (CSFP)*
- *Special Milk Program for Children*
- *Daycare provided by the Social Services Block Grant Programs (if the recipient receives* ***reimbursement*** *for childcare expenses, that amount is reported as income)*
- *JTPA Benefits*
- *Rollover Pensions*
- *Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act*

Dependent Benefits Example

Paul receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel, his guardian, on his behalf. Laurel has to report these benefits as her untaxed income when she completes her FAFSA, even though the benefits are for Paul.

Stanislaw's Uncle Yvor lives with him. Yvor receives a small disability payment each month. This amount is paid directly to Yvor, so Stanislaw doesn't report it as income when he completes the FAFSA. The payment is small enough that Stanislaw is still providing more than half of Yvor's support, and so he includes Yvor in his household size as a dependent. However, next year Yvor is expecting to also start receiving a pension. The combination of the pension and the disability payment will be enough that Stanislaw won't be providing more than half of Yvor's support, and Stanislaw won't be able to include Yvor in his household size any more.

$2,500, the amount that exceeds $2,000—$500—would be reported as untaxed income.

- **Heating/fuel assistance.** This includes payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). Payments under the LIHEA are made through state programs that may have different names.

- **Flexible spending arrangements.** These are employee benefit programs, sometimes also called "cafeteria plans." Neither contributions to nor payments from these programs should be counted as untaxed income.

Benefits received on behalf of dependents

Any benefits received by the head of household on behalf of anyone included in household size as reported on the FAFSA are income to the head of the household. However, if members of the household, such as an uncle or grandmother, receive benefits in their own names, those benefits are not reported as income of the head of household. Note that these people can't be included in household size if they receive in their own names more than half of their support through such benefits. Because student financial aid isn't counted as income, tuition benefits a parent receives for a dependent (for example, from the parent's employer) are not included as untaxed income. These tuition benefits are taken into account as resources and estimated financial assistance; see Chapter 10 of this publication.

Underpayments and overpayments of benefits

The student reports the actual amount of benefits received for the year in question, even if the amount is an underpayment or an overpayment that will be corrected in the next year. However, if the underpayment or overpayment was adjusted in the same year, only the net amount received during that year would be reported.

Cash support and in-kind support

As mentioned above, the student reports as income any cash support he or she received, but doesn't report in-kind income. The student reports any money he or she received, or money paid to someone else on his or her behalf. For example, if a friend or relative gives the student grocery money, it's reported as untaxed income. If the friend or relative pays the student's electric bill or part of the student's rent, the student must report those payments as untaxed income.

In-kind support is support in forms other than money, such as free food or housing. If a friend or relative gives the student food, or allows the student to live with them rent-free, that support isn't included as untaxed income. The one exception (mentioned above) is that the student has to report housing and other allowances received as compensation for a job.

If the student is living with someone who is paying living expenses, it can be difficult to determine whether the support is cash support or in-kind support. The basic rule is, if someone pays money that the student would otherwise pay, that money is counted as cash support. For example, if the student is living with a friend who pays the rent, but the student's name is the only one on the lease, the rent paid is counted as cash support. Because the student's name is on the lease, he or she, not the friend, is responsible for the payments, and so the friend is paying rent on the student's behalf.

Worksheet B other items

National and Community Service (Americorps) living allowance. The National and Community Service Trust Act of 1993 allows people to earn postsecondary tuition funds by filling unmet community needs. Living allowances (but not other benefits) received under this program should be reported as an exclusion. Earnings received under this program aren't included in the amount on Worksheet B.

Child-support payments. Any child-support payments made during 1998 by the student, spouse, or parent whose income is reported on the FAFSA should be reported as an exclusion. However, don't include child support paid for a child included in the household size reported on the FAFSA.

Assets

An asset is defined as property that is owned by the family and has an exchange value. A student does not report as assets possessions such as a car, a stereo, clothes, or furniture.

The law exempts certain assets from consideration for student aid purposes. Therefore, a family's principal place of residence is not reported as an asset. Neither is a family farm; only investment farms are reported as assets.

Ownership of an asset

In some cases, the ownership of an asset is divided or contested, which can affect how the student reports the asset on the application. There are several such situations:

- **Part ownership of asset.** If the parent or student has only part ownership of an asset, the student should report only that part. Generally, the value of an asset and debts against it should be divided equally by the number of people who share ownership, unless the share of the asset is determined by the amount invested or the terms of the arrangement specify some other means of division.
- **Contested ownership.** Assets shouldn't be reported if the ownership is being contested. For instance, if the parents are separated and can't sell or borrow against jointly owned property because it's being contested, the parent reporting FAFSA information would not list any net worth for the

Child Support Payments Example

Steven is married; he and his wife have one child. He's also paying child support for a child he had with another woman. This child doesn't live with Steven and his wife, but because he's providing over half the child's support (through his child support payments), he counts the child in his household size. Therefore, he doesn't report the amount of child support he pays in Worksheet B on his FAFSA. Steven's wife is also paying child support for a child of hers that doesn't live with her. She isn't providing over half the child's support, so the child isn't included in Steven's household size. Therefore, Steven can report the amount of child support his wife pays in Worksheet B on his FAFSA.

Family Farm

A farm is a family farm if the farm is the principal place of residence and the family claimed on Schedule F of the tax return that it "materially participated in the farm's operation." In certain instances, however, even if the farm is incorporated and the family files a corporate return instead of IRS Schedule F, the farm is still considered a family farm and the net worth of the farm isn't reported on the FAFSA. In such cases, the applicant must show evidence that family members own all shares of stock in the corporation and that those family members also reside on the farm.

Rental Properties

Sometimes the student or parent will claim that rental properties represent a business. Generally, rental properties must be reported as real estate rather than as business assets. To be reported as a business, a rental property would have to be part of a formally recognized business. (Usually such a business would provide additional services, such as regular cleaning, linen, or maid service.)

Education IRAs

An Education IRA is essentially a savings account, and so is reported as an asset for the student beneficiary. It should be reported as an investment.

"Take-Back" Mortgages

In a "take-back" mortgage, the seller takes back a portion of the mortgage from the buyer and arranges for the buyer to repay that portion of the mortgage to the seller. For IRS purposes, the seller must report the interest portion of any payments received from the buyer on Schedule B of IRS Form 1040. Therefore, if an amount is reported on this line of the tax return, the family probably has an asset that should be reported on the FAFSA. The value of the take-back mortgage is the value that the student should report. There would be no debt reported against this asset. For instance, if the family sold its house for $60,000 and had a take-back mortgage of $20,000, the family should report $20,000 as the net worth of the investment. This amount will decrease each year, depending on how much of the principal the buyer paid back that year. (This concept would also apply to other forms of seller financing of the sale of a home or other property.)

property. However, if the ownership of the property is not being contested, the parent would report the property as an asset. If ownership of an asset is resolved after the initial application is filed, the student can't update this information.

- **Lien against asset.** If there's a lien or imminent foreclosure against the asset, the asset would still be reported until the party holding the lien or making the foreclosure completes legal action to take possession of the asset. If the status of the property changes after the application is filed, the student can't update the asset information.

Types of assets

The FAFSA collects information about three types of assets in addition to cash, savings, and checking accounts: investments, businesses, and investment farms. Most assets are investments; some examples of investments are real estate, trust funds, mutual funds, money-market funds, stocks, bonds, commodities, and precious metals. If the asset isn't a business or investment farm, it should be reported as an investment.

The FAFSA used to ask the student to report both the total value of the asset and the debt against it. The CPS then calculated the net worth. Beginning with the 1999-2000 award year, the FAFSA only asks the student to report the net worth of the asset. The student must figure the total current market value of the investment, and subtract from that amount those debts that are related to the investment. If the net worth is negative, the student reports a net worth of zero on the application.

For a business, the current market value should include the value of land, buildings, machinery, equipment, and inventories, except that the student shouldn't include the family's primary residence if it's part of the business. Business debt includes only those debts for which the business was used as collateral.

For an investment farm, current market value includes the value of the land, buildings, machinery, equipment, livestock, and inventories. The farm debt includes the unpaid mortgage and related debts, as well as any debts for which the farm assets were used as collateral. As noted earlier, a student should not report a family farm as an asset.

Reporting trust funds

Trust funds in the name of a specific individual should be reported as that person's asset on the application. As a general rule, the student must report the present value of the trust as an asset, even if the beneficiary's access to the trust is restricted. If the settlor of a trust has voluntarily placed restrictions on the use of the trust, then the student should report the trust as an asset, just like trusts without restrictions. If a trust has been restricted by court order, however, the student should not report it as an asset. An example of such a restricted trust is one set up by court order to pay for future surgery for the victim of a car accident.

The way in which the trust must be reported varies according to whether the student (or dependent student's parent) receives or will receive the interest income, the trust principal, or both.

Interest only

If a student, spouse, or parent receives only the interest from the trust, any interest received in the base year must be reported as income. Even if the interest accumulates in the trust and is not paid out during the year, the person who will receive the interest must report an asset value for the interest he or she will receive in the future. The trust officer can usually calculate the present value of the interest the person will receive while the trust exists. This value represents the amount a third person would be willing to pay to receive the interest income that the student (or parent) will receive from the trust in the future.

Principal only

The student, spouse, or parent who will receive only the trust principal must report the present value of his or her right to the trust principal as an asset. For example, if the principal is $10,000 and it reverts to a dependent student's parents when the trust ends in 10 years but the student is receiving the interest earned from the trust, the student must report as a parental asset the present value of the parents' rights to the trust principal. The present value of the principal is the amount that a third person would pay at the present for the right to receive the principal 10 years from now (basically, the amount that one would have to deposit now to receive $10,000 in 10 years, including the accumulated interest). Again, the present value can be calculated by the trust officer.

Both principal and interest

If a student, spouse, or parent receives both the interest and the principal from the trust, the student should report the present value of both interest and principal, as described in the discussion of principal only. If the trust is set up so that the interest accumulates within the trust until the trust ends, the beneficiary should report as an asset the present value of the funds (both interest and principal) that he or she is expected to receive when the trust ends.

Excluded assets

Some assets aren't reported on the form. These include:

- **Tuition prepayment plans.** This includes the Michigan Education Trust and all similar tuition prepayment plans. The annual tuition prepayment amount will be taken into account when the student's aid is packaged.

- **Pensions and whole life insurance.** Pensions aren't counted as assets for application purposes. Of course, when the income from a pension is distributed to the beneficiary, the income must be reported. The cash value or built-up equity of a life insurance policy (often referred to as a whole-life policy) isn't reported as an asset. The Education IRA **is** counted as an asset for the student beneficiary because, despite its name, it isn't a retirement account.

- **Excluded assets for Native American students.** The law explicitly excludes reporting any property received under the Per Capita Act or the Distribution of Judgment Funds Act (25 United States Code 1401, et seq.), the Alaska Native Claims Settlement Act (43 United States Code 1601, et seq.), or the Maine Indian Claims Settlement Act (25 United States Code 1721, et seq.).

Qualified state tuition programs

Some states have state-sponsored college savings plans, which may also be known as qualified state tuition programs (QSTPs). Because the plans are covered in section 529 of the tax code, they may also be called section 529 plans. The IRS defines two types of QSTPs.

Under the first type of QSTP, someone can buy tuition credits or certificates that can be used for the beneficiary's college expenses. The buyer is buying designated units of attendance in advance, and the number of units doesn't change even if the actual tuition at a school increases. This type of plan is essentially a type of tuition prepayment plan. Like other tuition prepayment plans, the amount in this program isn't reported as an asset.

Under the second type of QSTP, someone can make contributions to an account that's to be used for the beneficiary's college expenses. Because the buyer isn't buying tuition credits or certificates, this type of plan isn't considered a tuition prepayment plan. Instead, it's essentially a specialized savings account. The account should be reported as an asset of the owner (not the beneficiary, because the owner can remove or change the beneficiary at any time).

SIGNATURE REQUIREMENTS

The student has to provide a signature for the FAFSA to be processed. In addition to certifying that the data on the FAFSA is correct, the student is also signing the Statement of Educational Purpose, which is required to receive SFA aid. If the student is dependent, one parent whose information is reported on the FAFSA must also provide a signature. The school must also have a signature from the student (and parent, for a dependent student) for corrections.

Signatures for Electronic Applications

Like students who apply using paper FAFSAs, those who apply electronically must meet certain signature requirements. The requirements and how a student meets those requirements vary depending on what electronic method the student uses.

EDE

If a student applies through the EDE system, the school must obtain the signatures on a completed paper application or on the "echo document" printed through EDE, and must keep the signed

Signature Requirements for Application and Verification Information

		Application *(FAFSA, FOTW, EDE, FAFSA Express)*	*IRS Forms* *1040 or other form submitted for verification*	*Verification Worksheet*
General Req's	**Student**	Must sign statement that data are accurate (on application, echo document, or signature page or by use of EAC)	Tax return must be signed by student (or spouse) or by the tax preparer (or preparer's stamp)	Must sign worksheet
	Parent(s) (if student is dependent)	One parent must sign statement that data are accurate (on application, echo document, or signature page)	Tax return must be signed by one parent or by the tax preparer (or preparer's stamp)	One parent must sign
	FAA	Must certify if dependency override is performed		
Additional Pell Req's		*SAR* *to be submitted for corrections*	*EDE* *corrections*	*Professional Judgment* *on SAR or through EDE*
	Student	Must sign corrections statement on Part 2 of SAR	School must have signed documentation	
	Parent(s) (if student is dependent)	One parent must sign the corrections statement on Part 2 of the SAR	School must have signed documentation	
	FAA			Must certify for adjustments or dependency override

document in its files even if the student doesn't receive federal student aid or doesn't attend that school.

FAFSA on the Web and FAFSA Express

Students can print out a signature page for *FAFSA on the Web* and *FAFSA Express* if a printer is available. The student should sign the signature page and mail it to the processor. If the processor doesn't receive a signature page within 14 calendar days of receiving the application data, it will mail a "reject 16" SAR to the student. The student must sign this SAR and return it to the processor. If no printer was available, the processor won't wait 14 days to print a rejected SAR for the student. Instead, it will generate one within 72 hours of receiving the data.

Schools and states receive ISIRs for reject 16 records. A student's reject 16 SAR and his or her ISIR will reflect the data that he or she provided on the application; however, the CPS won't calculate an EFC for the student until it receives a signed signature page or a signed SAR. A school can also collect the required signatures at the school, either on the SAR or a document that has the required certification statements (EDExpress allows schools to print out a signature page for the ISIR). The school can then submit an electronic correction showing that the signatures have been provided.

Renewal FAFSA on the Web

The Electronic Access Code (EAC) substitutes for the student's signature. (See the Introduction to this publication for information on the EAC.) For an independent student, no other signatures are needed, so no signature page is necessary. The application will be processed within 72 hours. Then the student will receive a SAR, and the schools listed on his or her application will receive ISIRs.

For a dependent student, *Renewal FAFSA on the Web* will ask the student to print a signature page in order to collect the required parent's signature. If the student indicates that no printer was available, the CPS will generate a "reject 15" output document for the student within 72 hours. Otherwise, the processor will wait up to 14 calendar days to receive the signed page. If it doesn't receive a signed signature page within 14 days, it will generate a reject 15 SAR and send it to the student. The student must have a parent sign the SAR and must send it to the address on the SAR.

As is the case with *FAFSA on the Web* and *FAFSA Express* reject 16 records, schools and states will receive ISIRs for reject 15 records. A student's SAR and ISIR will reflect the data provided on the application; however, the CPS won't calculate an EFC for the student until it receives a signed signature page or a signed SAR. Again, only a parent must sign the signature page or SAR. The EAC substitutes for the student's signature.

Substitute for Parent's Signature

Although parental information must be provided for a dependent student, a high school counselor or a postsecondary school's aid administrator may sign the application in place of the parent(s) if:

- the parent(s) is not currently in the United States **and** cannot be contacted by normal means,
- the current address of the parent(s) is not known, or
- the parent(s) has been determined physically or mentally incapable of providing a signature.

The signature of a counselor or aid administrator serves as a mechanism to get the application through the processing system. The counselor or aid administrator must provide his or her title in parentheses next to his or her signature and briefly state the reason (only one reason is needed) why he or she is signing for the parent(s). The counselor or aid administrator assures a minimum level of credibility in the data submitted. However, the counselor or aid administrator does not assume any responsibility or liability in this process. If the aid administrator finds any inaccuracies in the information reported, he or she should direct the student to send the SAR through the normal correction process or should submit corrections through EDE.

Preparer's Signature

The law requires that if anyone other than a student, the student's spouse, or the student's parents prepares the application, then the preparer must write in his or her name, the firm/company name (if applicable), the firm/company address, and either the firm/company's Employer Identification Number (EIN) (as assigned by the IRS) or the preparer's SSN.

The preparer must also sign the form. High school counselors, aid administrators, and others who help students with their applications by actually filling out line items on the form or dictating responses to items on the form are considered preparers. Preparers must complete this section even if they are not paid for their services.

Signatures for Corrections and Adjustments

If an FAA is making a correction through EDE, the school must have signed documentation for the correction from the student and parent. This signed documentation can be signatures on Part 2 of the SAR, a signed copy of the correction to be sent to the CPS, or signed verification documentation. The school must collect this documentation before sending data to the CPS.

If the student chooses to make a correction on a paper SAR, the student and one parent (for a dependent student) must sign Part 2 of the SAR.

An FAA making a professional judgment adjustment can submit the change without a signature from the parent or student.

Expected Family Contribution

CHAPTER 7

The EFC is a measure of how much the student and his or her family can be expected to contribute to the cost of the student's education. The EFC is calculated according to a formula specified in the law. In this chapter, we describe the EFC formula in detail.

GENERAL INFORMATION

All the data used to calculate the EFC come from the information the student provides on the FAFSA. The CPS analyzes the information from the FAFSA and calculates the EFC. The EFC measures the family's financial strength on the basis of the family's income and assets. The EFC formula also takes into account the family's expenses relative to the number of persons in the household and how many of them will be attending college during the award year.

Every year, the Department publishes updated tables used in the EFC calculation. For the 1999-2000 award year, these tables were published in the *Federal Register* on June 1, 1998, with corrections published October 14, 1998.

The law provides three different formulas to calculate the EFC: one for dependent students, one for independent students without dependents other than a spouse, and one for independent students with dependents other than a spouse.

SPECIAL EFCS

In addition to the three regular formulas mentioned above, the law specifies some special calculations of the EFC in certain circumstances. There is a simplified formula for students who meet certain income and tax-filing requirements. Students whose families have a very low income automatically get a zero EFC. And finally, the law specifies how to calculate the EFC for periods of other than nine months.

EFC Formula Cites

Sec. 474, 475, 476, 477, 478, 479

Simplified Formula Cite

Sec. 479(b)

Other Tax Forms

A foreign tax return counts as an IRS Form 1040 for the purposes of qualifying for the simplified formula and the automatic zero EFC. A tax return for Puerto Rico, Guam, American Samoa, the Virgin Islands, Marshall Islands, the Federated States of Micronesia, or Palau counts as an IRS Form 1040A or 1040EZ for the purposes of qualifying for the simplified formula and the automatic zero EFC.

Asset Information Not Reported on FAFSA

If the student doesn't provide any asset information and qualifies for the simplified formula, his or her application will still be processed normally. The student will only receive one EFC, which will be produced by the simplified formula. However, if the student didn't qualify for the simplified formula, his or her application will be rejected, and the student will have to submit asset information before the CPS will calculate an EFC.

Automatic Zero EFC Cite

Sec. 479(c)

Simplified Formula

The simplified formula is basically the same as the regular formula, except that asset information isn't considered in the calculation. A dependent student qualifies for the simplified calculation if

- neither the student nor his or her parents were required to file an IRS Form 1040 and
- the parents' AGI (for taxfilers) or income earned from work (for nonfilers) was less than $50,000.

An independent student qualifies for the simplified calculation if

- neither the student nor his or her spouse was required to file an IRS Form 1040 and
- the student and spouse's combined AGI (for taxfilers) or income earned from work (for nonfilers) was less than $50,000.

In previous years, students who met the requirements for the simplified formula weren't required to provide asset information on the application, but many students were confused by the worksheets used to determine whether they needed to provide asset information. Beginning with the 1999-2000 award year, the application asks for asset information from all students, but as in previous years the CPS will perform a calculation using the simplified formula (and ignoring the asset data) if the student qualifies. If the asset data is provided, the CPS will also perform a full calculation using the asset data. A student who qualifies for the simplified formula and provides asset data will have two EFCs. The EFC from the simplified formula is called the Primary EFC. The Primary EFC is printed on the front of the student's SAR. The EFC from the full calculation is called the secondary EFC. It's printed in the FAA Information section. In all cases, the secondary EFC will be equal to or higher than the primary EFC. The school can use either EFC to determine the student's eligibility.

Automatic Zero EFC

The formula also provides for an automatic zero EFC for some students. A dependent student automatically receives a zero EFC if

- neither parent was required to file an IRS Form 1040, and
- the parents' combined AGI (for taxfilers) or combined income earned from work (for nonfilers) is $12,000 or less.

An independent student with dependents other than a spouse automatically qualifies for a zero EFC if:

- neither the student (or spouse) was required to file an IRS Form 1040, and
- the student's and spouse's combined AGI (for taxfilers) or combined income earned from work (for nonfilers) is $12,000 or less.

Independent students with no dependents other than a spouse do not qualify for an automatic zero EFC.

Alternate EFCs

The law specifies how the EFC of a dependent student must be modified if the student is going to enroll for other than a 9-month period. The EFC found in the upper right hand corner of the first page of the output document is based on a 9-month enrollment period and should always be used for awarding a Pell Grant, even if the student is attending for a longer or shorter period. The second section of the FAA Information area contains headings for the number of months, Primary EFC, and Secondary EFC, as well as a table of 1- to 12-month alternate EFCs. The figures in the table represent alternate EFCs that the financial aid administrator may use to award aid if the student is attending for less than or greater than the standard 9-month period.

For independent students, the law does not specify the adjustments, so the CPS performs a simple proration of the EFC by month for the convenience of the financial aid administrator.

Alternate EFC Cite
Sec. 475(i)

Formula for Dependent Students Cite
Sec. 475

FORMULA FOR DEPENDENT STUDENTS

The EFC for a dependent student is calculated using the information for the student and the student's parents provided on the FAFSA. The CPS calculates a parents' contribution, a student's contribution from income, and a student's contribution from assets; the EFC is the sum of these three. The parents' contribution includes a contribution from assets.

Under the simplified formula, the parent's contribution doesn't include a contribution from assets, and the student's contribution from assets isn't used.

At the end of this section are worksheets and tables that can be used to calculate the EFC for a dependent student. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are greyed out.

Parents' Contribution

There are three basic steps in calculating the parents' contribution. First, the parents' available income is determined. Then, the parents' contribution from assets is calculated. Finally, the parents' contribution is calculated using the available income, the contribution from assets, and the number in college.

Parents' available income

The parents' available income is calculated by subtracting certain allowances from the parents' total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

Parents' total income

The total income is the sum of the taxable and untaxed income, minus amounts reported in the income but excluded from the formula (see Chapter 6 of this publication for more information on these exclusions.) If the parents are taxfilers, the parents' AGI as reported on the FAFSA is the amount of the parents' taxable income used in the calculation. If the parents are not taxfilers, the calculation uses the parents' reported income earned from work. Note that "earned income credit" is included as part of total untaxed income and benefits only if the parents are taxfilers. Total income can be a negative number.

Parents' allowances

The allowances are calculated by adding the following:

- **U.S. Income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it is set to zero.

- **State and other tax allowance.** Use Table A1. This allowance is a percentage of parents' total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the parents' total income is below $15,000 or is $15,000 or more. The state to be used is the parents' state of legal residence reported on the FAFSA. If this item is blank or invalid, the student's reported state of legal residence is used. If both are blank or invalid, the state in the student's mailing address is used. If all three are blank or invalid, the rate shown in Table A1 for a blank or invalid state is used (4% for total income below $15,000; 3% for total income of $15,000 or more). If the allowance is a negative amount, it's set to zero.

Total Income Examples

Kitty and Lydia are sisters, and they are both dependent students. Their parents' AGI is $60,000; their father's income earned from work is $30,000 and their mother's income earned from work is $25,000. They also listed $2,000 in untaxed income on the FAFSA in question 70. Their total taxable and untaxed income is $62,000. They reported no exclusions on the FAFSA in question 71; therefore, their total income is $62,000. After the application was filed, Kitty told the FAA at Bennet that her mother was no longer employed and didn't have any other income. The FAA decided to use her professional judgment to adjust Kitty's application (see Chapter 9 for information on professional judgment). The FAA reduces the AGI to $35,000 and the mother's income earned from work to zero. She doesn't make any other changes to income items. Therefore, the parents' total income used for Kitty's EFC will be $37,000.

Owen is a dependent student. His parents' AGI is -$83,000 because they had business losses. His father's income earned from work is zero, and his mother's income earned from work is $40,000. They also reported $20,000 in untaxed income and benefits in question 70 on the FAFSA. They reported no exclusions in question 71. Therefore, Owen's parents' total income is -$63,000. Although his parents' income is very low, Owen doesn't qualify for an automatic zero EFC or the simplified formula because his parents were required to file a 1040.

- **Father's and mother's Social Security tax allowance.** The father's and mother's Social Security taxes are calculated separately by applying the tax rates shown in Table A2 to the father's income earned from work and the mother's income earned from work in 1998 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** Use Table A3. This allowance is a provision for the basic living expenses of a family. The allowance varies according to the number in the parents' household and the number in college in 1999-2000, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA").

- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. For two working parents, the allowance is 35% of the lesser of the father's income earned from work (question 68) or the mother's income earned from work (question 69), but may not exceed $2,800. For one-parent families, the allowance is 35% of the parent's income earned from work, or $2,800, whichever is less. If a student's parents are married and only one parent reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

Allowance and Available Income Examples

Kitty and Lydia's parents reported on the FAFSA that they paid $5,900 in U.S. income tax. The family lives in Illinois, so the percentage they use for calculating state and local taxes is 5%. The allowance for state and local taxes is $62,000 (the parents' total income) x 5%=$3,100. The father's Social Security tax allowance is $30,000 x 7.65%=$2,295; the mother's Social Security tax allowance is $25,000 x 7.65%=$1,913. They reported a household size of six, with two household members in college, so their income protection allowance is $23,920. Their employment expense allowance is $2,800, because 35% of the mother's income is $8,750. Therefore, the total allowances used in calculating Lydia's EFC are $39,298. When the FAA at Bennet adjusted the AGI and mother's income for Kitty, she also changed the income tax paid to $2,160. With the reduced total income, the allowance for state and local taxes is $1,850 ($37,000 x 5%). The father's Social Security tax allowance is still $2,295, but the mother's allowance is zero, because she has no income. The income protection allowance is still $23,920. Because only one parent has income from work, the employment expense allowance is zero. The total allowances used in calculating Kitty's EFC are $30,225. For Lydia's EFC, the parents' available income is $22,702. For Kitty's EFC, the parents' available income is $6,775.

Owen's parents reported zero U.S. income tax paid on the FAFSA. Because their total income is negative, using Table A1 to calculate a state and local tax allowance produces a negative number, so their state and local tax allowance is zero. His father's Social Security tax allowance is zero because he had no income earned from work. His mother's Social Security tax allowance is $40,000 x 7.65%=$3,060. They reported a household size of four on the FAFSA, with one in college, so their income protection allowance is $18,850. Because only one parent is employed, their employment expense allowance is zero. The total allowances used in calculating Owen's EFC are $21,910. Owen's parents' available income is -$84,910 (-$63,000 + -$21,910).

Parents' Contribution from Assets

In the full formula, the assets of parents of a dependent student are considered in order to fully measure the family's ability to contribute toward postsecondary educational costs. The formula evaluates the family's asset situation and determines a "contribution from assets," an amount that is combined with available income to give an accurate picture of the family's financial strength. In the simplified formula, the assets aren't counted at all.

First, the parents' **net worth** is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table A4 to calculate the amount to be used.

Second, the parents' **discretionary net worth** is calculated by subtracting the education savings and asset protection allowance (Table A5) from the parents' net worth. As is the case with income, this is done to protect a portion of assets. The allowances for ages 40 through 65 approximate the present cost of an annuity which, when combined with Social Security benefits, would provide at age 65 a moderate level of living for a retired couple or single person. As shown in Table A5, the allowance increases with the age of the older parent (as reported on the FAFSA) to indicate the cost of purchasing such an annuity at a given age. Discretionary net worth may be less than zero.

Contribution from Assets Examples

Kitty and Lydia's parents reported $2,000 for cash, savings, and checking on the FAFSA. They didn't report any other assets. Their net worth is $2,000. The father, the older parent, is 50, so their education savings and asset protection allowance is $48,400. Their discretionary net worth is -$46,400; multiplying that amount by the conversion rate of 12% results in a negative number. Because the result is negative, the parents' contribution from assets is zero. After the FAA at Bennet reduced the AGI on Kitty's application because her mother isn't employed, Kitty qualified for the simplified needs test, and would receive both a primary (simplified) EFC and the secondary EFC from the full formula. However, because the parents' contribution from assets is zero, the primary EFC and the secondary EFC will be the same.

Owen's parents reported $15,000 for cash, savings, and checking on the FAFSA. They also reported $40,000 for the net worth of their investments, and $550,000 for the net worth of their business. The adjusted net worth of the business (the amount to be used in the EFC calculation) is $226,500 + ($550,000-$435,000)= $341,500. Owen's parents' net worth is $396,500. His mother, the older parent, is 60, so their education savings and asset protection allowance is $64,400. Their discretionary net worth is $396,500 - $64,400= $332,100. Multiplying this by the conversion rate of 12%, Owen's parents' contribution from assets is $39,852.

Finally, the discretionary net worth is multiplied by the conversion rate of 12% to obtain the **parents' contribution from assets**, which represents the portion of the value of parents' assets that may be considered to be available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

Calculation of Parents' Contribution

This is the final step in determining the parents' contribution. The parents' available income and contribution from assets are added together to determine the parents' adjusted available income. The adjusted available income can be a negative number. The total parents' contribution from adjusted available income is calculated from the amounts and rates in Table A6 and is the total amount parents are expected to contribute toward all of their family's postsecondary educational costs. The rates in Table A6 increase from 22% to 47% as the adjusted available income increases. The rate is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases, while the portion available for discretionary purposes increases. Therefore, a progressively larger amount of income may be contributed toward postsecondary educational costs with less effect on the maintenance of the family.

The parents' contribution for the individual student is calculated by dividing the total parents' contribution from adjusted available income by the number in college in 1999-2000, as reported on the FAFSA.

Alternate EFCs for other than 9-month enrollment

The standard parents' contribution is for a 9-month enrollment period. If the student will be enrolled for less or more than 9 months, the parents' contribution is adjusted accordingly; there is no adjustment to the dependent student's own contribution. For an

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Parents' Contribution Examples

For Lydia's EFC, her parents' available income is $22,702 and their contribution from assets is zero, so their adjusted available income is $22,702. The total parents' contribution is $5,979 + ($602 x 47%)=$6,262. Because the number of household members in college is two, the parents' contribution for Lydia is $3,131. For Kitty, the parents' available income is $6,775. Because Kitty qualifies for the simplified formula, the parents' contribution is calculated both with and without including assets; however, because their contribution from assets is zero, the two will be the same. For each formula, their adjusted available income is $6,775. The total parents' contribution is $6,775 x 22%=$1,491, and the parents' contribution for Kitty is $746.

Owen's parents' available income is –$84,910, and their contribution from assets is $39,852. This makes their adjusted available income -$45,058. According to Table A6, their total parents' contribution is -$750; because this number is less than zero, zero is used as the total parents' contribution. The parents' contribution for Owen is also zero.

enrollment of less than 9 months, the parents' contribution is simply reduced proportionally—1/9 for each month of enrollment less than 9 months. For an enrollment of more than 9 months, the parents' contribution is calculated by adjusting the standard 9-month formula in several steps, beginning with the parents' adjusted available income (see page 3 of Worksheet A).

Student's Contribution from Income

To determine the student's contribution from income, the student's available income (AI) is first calculated by subtracting total allowances from the student's total income. The AI is then assessed at a rate of 50% to obtain the student contribution from available income. If the student contribution from available income is less than zero, it's set to zero.

Student's available income

The available income is the student's total income minus total allowances. As with the parents' income information, the student's total income is calculated using information from the student's FAFSA. The student's total income is the sum of the student's taxable and untaxed income, minus amounts reported in the income but excluded from the formula (see Chapter 6 for more on these exclusions). If the student is a taxfiler, the student's AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student is not a taxfiler, the calculation uses the student's reported income earned from work. Total income may be a negative number.

Total Income Examples

Kitty reported an AGI and income earned from work of $6,000, and untaxed income of $1,000. She also had $2,000 of exclusions from income that she reported on the FAFSA. Her total income is $5,000. Lydia didn't file a tax form, but reported that she earned $3,250 from work. She also reported $1,750 in untaxed income, and no exclusions. Her total income is also $5,000.

Owen had an AGI of -$15,000, but reported income earned from work of $20,000. He also had untaxed income of $8,000, and no exclusions. His total income is -$7,000.

Allowances and Contribution from Income Examples

Kitty reported income tax paid of $264. Her state of legal residence is Illinois, so her state and other tax allowance is $5,000 x 2% = $100. Her Social Security tax allowance is $6,000 x 7.65% = $459. With the $2,200 income protection allowance, her total allowances equal $3,023. Her available income is $5,000 - $3,023 = $1,977, and her contribution from income is $1,977 x 50% = $989.

Lydia didn't report any income tax paid. She also lives in Illinois, so her state and other tax allowance is $5,000 x 2% = $100. Her Social Security tax allowance is $3,250 x 7.65% = $249. With the $2,200 income protection allowance, her total allowances equal $2,549. Her available income is $5,000 - $2,549 = $2,451, and her contribution from income is $2,451 x 50% = $1,226.

Owen reported zero U.S. income tax paid on the FAFSA. Because his total income is negative, using Table A7 to calculate a state and local tax allowance produces a negative number, so his state and local tax allowance is also zero. Owen's Social Security tax allowance is $20,000 x 7.65%=$1,530. With the $2,200 income protection allowance, his total allowances equal $3,730. His available income is -$7,000 - $3,730 = -$10,730; multiplying his available income by 50% produces a negative number, so his contribution from income is zero.

The allowances are calculated by adding the following:

- **U.S. Income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it's set to zero.

- **State and other tax allowance.** Use Table A7. This allowance is a percentage of the student's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the parents' state of legal residence is used. If all three items are blank or invalid, the rate for a blank or invalid state in Table A7 is used (2%). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student's Social Security taxes are calculated by applying the tax rates shown in Table A2 to the student's income earned from work in 1998 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** The income protection allowance for a dependent student is $2,200.

Student's Contribution from Assets Examples

Kitty reported $50 in cash, savings, and checking, and no other assets. Her net worth is $50, and her contribution from assets is $50 x 35% = $18. Because she qualified for the simplified formula, she receives an EFC without this amount added, as well as one with the contribution from assets added.

Lydia reported $500 in cash, savings, and checking, and no other assets. Her net worth is $500, and her contribution from assets is $500 x 35% = $175.

Owen reported $7,000 for cash, savings, and checking. He also reported $20,000 for the net worth of his investments, and $20,000 for his share of his parents' business. His net worth is $47,000, and his contribution from assets is $47,000 x 35% = $16,450.

Final EFC Examples

After the FAA at Bennet has adjusted Kitty's data, her EFC is $746 (parents' contribution) + $989 (contribution from income) = 1,735. Because she qualified for the simplified formula, this EFC doesn't take her or her parents' assets into account. Her secondary EFC is $746 (parents' contribution) + $989 (contribution from income) + $18 (contribution from assets) = 1,753. Lydia's EFC is $3,131 (parents' contribution) + $1,226 (contribution from income) + $175 (contribution from assets) = 4,532.

Owen's EFC is $0 (parents' contribution) + $0 (contribution from income) + $16,450 = $16,450. Note that if Owen had qualified for the simplified formula, his EFC would be zero.

Student's Contribution from Assets

The student's assets are treated the same way as the parents' assets with three differences—there's no adjustment to the net worth of a business or farm, there's no education savings and asset protection allowance, and net worth is assessed at the rate of 35%. Remember that under the simplified formula there's no student contribution from assets.

The student's net worth is calculated by adding assets reported on the FAFSA (negative amounts are converted to zero for this calculation). Then, the student's net worth is multiplied by the conversion rate of 35% to obtain the student's contribution from assets, which represents the portion of the value of student's assets that may be considered to be available to help pay for the student's postsecondary education.

1999-2000 EFC FORMULA A : DEPENDENT STUDENT

REGULAR WORKSHEET
Page 1
A

PARENTS' INCOME IN 1998	
1. Parents' Adjusted Gross Income (FAFSA/SAR #64)	
2. a. Father's income earned from work (FAFSA/SAR #68) ______	
2. b. Mother's income earned from work (FAFSA/SAR #69) + ______	
Total parents' income earned from work = 2.	
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits:	
• Earned Income Credit (tax filers only) (FAFSA/SAR #67) ______	
• Total from FAFSA Worksheet A (FAFSA/SAR #70) + ______	
Total untaxed income and benefits = 4.	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet B (FAFSA/SAR #71) –	
7. **TOTAL INCOME** (line 5 minus line 6). May be a negative number. =	

ALLOWANCES AGAINST PARENTS' INCOME	
8. 1998 U.S. income tax paid (FAFSA/SAR #65) (tax filers only); if negative, enter zero.	
9. State and other tax allowance (Table A1. If negative, enter zero.) +	
10. Father's Social Security tax (Table A2) +	
11. Mother's Social Security tax (Table A2) +	
12. Income protection allowance (Table A3) +	
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or $2,800, whichever is less.	
• One parent families: 35% of earned income, or $2,800, whichever is less	
• Two-parent families, one working parent: zero +	
14. TOTAL ALLOWANCES =	

AVAILABLE INCOME	
Total income (from line 7)	
Total allowances (from line 14) –	
15. **AVAILABLE INCOME (AI)** May be a negative number. =	

* STOP HERE if both of the following are true: line 3 is $12,000 or less, and the parents are eligible to file a 1998 IRS Form 1040A or 1040EZ (they are not required to file a 1998 Form 1040), or they are not required to file any income tax return — the student's EFC is zero.

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings, & checking (FAFSA/SAR #72)	
17. Net worth of real estate & investments** (FAFSA/SAR #73) If negative, enter zero.	
18. Net worth of business (FAFSA/SAR #74) If negative, enter zero.	
19. Net worth of farm (FAFSA/SAR #75) If negative, enter zero. If the family resides on the farm, enter zero.	
20. Net worth of business/farm (sum of lines 18 and 19)	
21. Adjusted net worth of business/farm (Calculate using Table A4.) +	
22. **Net worth** (sum of lines 16, 17, and 21) =	
23. Education savings and asset protection allowance (Table A5) –	
24. Discretionary net worth (line 22 minus line 23) =	
25. Asset conversion rate X	.12
26. **CONTRIBUTION FROM ASSETS** If negative, enter zero. =	

PARENTS' CONTRIBUTION	
Available income (AI) (from line 15)	
Contribution from assets (from line 26) +	
27. **Adjusted available income (AAI)** May be a negative number. =	
28. **Total parents' contribution from AAI** (Calculate using Table A6; if negative, enter zero.)	
29. **Number in college in 1999-2000** (FAFSA/SAR #78) ÷	
30. **PARENTS' CONTRIBUTION** (standard contribution for 9-month enrollment)	

** Do not include the family's home.

continued on reverse

REGULAR WORKSHEET Page 2 **A**

STUDENT'S INCOME IN 1998	
31. Adjusted Gross Income (FAFSA/SAR #41)	
32. Income earned from work (FAFSA/SAR #45)	
33. Taxable income (If tax filer, enter the amount from line 31. If non-tax filer, enter the amount from line 32.)	
34. Total from FAFSA Worksheet A (FAFSA/SAR #47)	
35. Taxable and untaxed income (sum of line 33 and line 34)	
36. Total from FAFSA Worksheet B (FAFSA/SAR #48)	
37. TOTAL INCOME (line 35 minus line 36) May be a negative number =	

ALLOWANCES AGAINST STUDENT INCOME	
38. 1998 U.S. income tax paid (FAFSA/SAR #42) (tax filers only); if negative, enter zero	
39. State and other tax allowance (Table A7. If negative, enter zero.) +	
40. Social Security tax allowance (Table A2) +	
41. Income protection allowance +	2,200
42. TOTAL ALLOWANCES =	

STUDENT CONTRIBUTION FROM INCOME	
Total income (from line 37)	
Total allowances (from line 42) −	
43. Available income (AI) =	
44. Assessment of AI ×	.50
45. STUDENT CONTRIBUTION FROM AI = If negative, enter zero.	

STUDENT CONTRIBUTION FROM ASSETS	
46. Cash, savings, & checking (FAFSA/SAR #49)	
47. Net worth of real estate & investments* (FAFSA/SAR #50) If negative, enter zero.	
48. Net worth of business (FAFSA/SAR #51) If negative, enter zero.	
49. Net worth of farm (FAFSA/SAR #52) If negative, enter zero. If the family resides on the farm, enter zero.	
50. Net worth (sum of lines 46 through 49) =	
51. Assessment rate ×	.35
52. CONTRIBUTION FROM ASSETS =	

EXPECTED FAMILY CONTRIBUTION	
PARENTS' CONTRIBUTION (from line 30)	
STUDENT CONTRIBUTION FROM AI (from line 45) +	
STUDENT CONTRIBUTION FROM ASSETS (from line 52) +	
53. EXPECTED FAMILY CONTRIBUTION =	

* Do not include the student's home.

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NOTE: *Use this additional page to prorate the EFC only if the student will be enrolled for other than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

REGULAR
WORKSHEET
Page 3
A

Calculation of Parents' Contribution for a Student Enrolled for LESS than 9 Months

Parents' contribution (standard contribution for 9-month enrollment, from line 30)		
Divide by 9	÷	9
Parents' contribution per month	=	
Multiply by number of months enrollment	x	
Parents' contribution for LESS than 9-month enrollment *	=	

Calculation of Parents' Contribution for a Student Enrolled MORE than 9 Months

a. Parents' adjusted available income (AAI) (from line 27—may be a negative number)		
b. Difference between the income protection allowance for a family of four and a family of five, with one in college	+	3,390
c. Alternate parents' AAI for more than 9-month enrollment (line a + line b)	=	
d. Total parents' contribution from AAI (calculate from Table A6, using alternate AAI)		
e. Number in college (FAFSA/SAR #78)	÷	
f. Alternate parents' contribution for student	=	
g. Standard parents' contribution for the student for 9-month enrollment (from line 30)	−	
h. Difference (line f minus line g)	=	
i. Divide line h by 12 months	÷	12
j. Parents' contribution per month	=	
k. Number of months student will be enrolled that exceed 9	x	
l. Adjustment to parents' contribution for months that exceed 9 (multiply line j by line k)	=	
m. Standard parents' contribution for 9-month enrollment (from line 30)	+	
n. **Parents' contribution for MORE than 9-month enrollment ***	=	

* Substitute the parents' contribution for LESS or MORE than 9-month enrollment in place of the parents' contribution for 9-month enrollment on EFC Formula Worksheet A, line 30.

1999-2000 EFC FORMULA A : DEPENDENT STUDENT

SIMPLIFIED WORKSHEET Page 1 **A**

PARENTS' INCOME IN 1998	
1. Parents' Adjusted Gross Income (FAFSA/SAR #64)	
2. a. Father's income earned from work (FAFSA/SAR #68) ______ 2. b. Mother's income earned from work (FAFSA/SAR #69) + ______	
Total parents' income earned from work = 2.	
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits: • Earned Income Credit (tax filers only) (FAFSA/SAR #67) ______ • Total from FAFSA Worksheet A (FAFSA/SAR #70) + ______	
Total untaxed income and benefits = 4.	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet B (FAFSA/SAR #71) −	
7. **TOTAL INCOME** (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST PARENTS' INCOME	
8. 1998 U.S. income tax paid (FAFSA/SAR #65) (tax filers only); if negative, enter zero.	
9. State and other tax allowance (Table A1. If negative, enter zero.) +	
10. Father's Social Security tax (Table A2) +	
11. Mother's Social Security tax (Table A2) +	
12. Income protection allowance (Table A3) +	
13. Employment expense allowance: • Two working parents: 35% of the lesser of the earned incomes, or $2,800, whichever is less. • One-parent families: 35% of earned income, or $2,800, whichever is less. • Two-parent families, one working parent: zero +	
14. **TOTAL ALLOWANCES** =	

AVAILABLE INCOME	
Total income (from line 7)	
Total allowances (from line 14) −	
15. **AVAILABLE INCOME (AI)** May be a negative number. =	

* STOP HERE if both of the following are true: line 3 is $12,000 or less, and the parents are eligible to file a 1998 IRS Form 1040A or 1040EZ (they are not required to file a 1998 Form 1040) or they are not required to file any income tax return — the student's EFC is zero.

PARENTS' CONTRIBUTION FROM ASSETS		
16. Cash, savings, & checking (FAFSA/SAR #72)		
17. Net worth of real estate & investments** (FAFSA/SAR #73) If negative, enter zero.		
18. Net worth of business (FAFSA/SAR #74) If negative, enter zero.		
19. Net worth of farm (FAFSA/SAR #75) If negative, enter zero. If the family resides on the farm, enter zero.		
20. Net worth of business/farm (sum of lines 18 and 19)		
21. Adjusted net worth of business/farm (Calculate using Table A4.) +		
22. **Net worth** (sum of lines 16, 17, and 21) =		
23. Education savings and asset protection allowance (Table A5) −		
24. Discretionary net worth (line 22 minus line 23) =		
25. Asset conversion rate ×		.12
26. CONTRIBUTION FROM ASSETS If negative, enter zero. =		

PARENTS' CONTRIBUTION	
Available income (AI) (from line 15)	
Contribution from assets (from line 26) +	
27. **Adjusted available income (AAI)** May be a negative number. =	
28. **Total parents' contribution from AAI** (Calculate using Table A6; if negative, enter zero.)	
29. **Number in college in 1999-2000** (FAFSA/SAR #78) ÷	
30. **PARENTS' CONTRIBUTION** (standard contribution for 9-month enrollment) =	

** Do not include the family's home.

continued on reverse

SIMPLIFIED
WORKSHEET
Page 2

A

STUDENT'S INCOME IN 1998	
31. Adjusted Gross Income (FAFSA/SAR #41)	
32. Income earned from work (FAFSA/SAR #45)	
33. Taxable Income (If tax filers enter the amount from line 31. If non-tax filers enter the amount from line 32.)	
34. Total from FAFSA Worksheet A (FAFSA/SAR #47)	
35. Taxable and untaxed income (sum of line 33 and line 34)	
36. Total from FAFSA Worksheet B (FAFSA/SAR #48) −	
37. **TOTAL INCOME** (line 35 minus line 36) May be a negative number =	

ALLOWANCES AGAINST STUDENT INCOME	
38. 1998 U.S. income tax paid (FAFSA/SAR #42) (tax filers only) If negative, enter zero.	
39. State and other tax allowance (Table A7 If negative, enter zero.) +	
40. Social Security tax allowance (Table A2) +	
41. Income protection allowance +	2,200
42. **TOTAL ALLOWANCES** =	

STUDENT CONTRIBUTION FROM INCOME	
Total income (from line 37)	
Total allowances (from line 42) −	
43. **Available income (AI)** =	
44. **Assessment of AI** ×	.50
45. **STUDENT CONTRIBUTION FROM AI** = If negative, enter zero.	

STUDENT CONTRIBUTION FROM ASSETS	
46. Cash, savings, & checking (FAFSA/SAR #49)	
47. Net worth of real estate & investments* (FAFSA/SAR #50) If negative, enter zero.	
48. Net worth of business (FAFSA/SAR #51) If negative, enter zero.	
49. Net worth of farm (FAFSA/SAR #52) If negative, enter zero. If the family resides on the farm, enter zero.	
50. **Net worth** (sum of lines 46 through 49) =	
51. Assessment rate ×	.35
52. **CONTRIBUTION FROM ASSETS** =	

EXPECTED FAMILY CONTRIBUTION	
PARENTS' CONTRIBUTION (from line 30)	
STUDENT CONTRIBUTION FROM AI (from line 45) +	
STUDENT CONTRIBUTION FROM AI (from line 45) +	
53. **EXPECTED FAMILY CONTRIBUTION** =	

* Do not include the student's home.

NOTE: *Use this additional page to prorate the EFC only if the student will be enrolled for other than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

SIMPLIFIED
WORKSHEET
Page 3
A

Calculation of Parents' Contribution for a Student Enrolled for LESS than 9 Months

Parents' contribution (standard contribution for 9-month enrollment, from line 30)		
Divide by 9	÷	9
Parents' contribution per month	=	
Multiply by number of months enrollment	X	
Parents' contribution for LESS than 9-month enrollment *	=	

Calculation of Parents' Contribution for a Student Enrolled MORE than 9 Months

a. **Parents' adjusted available income (AAI) (from line 27—may be a negative number)**		
b. Difference between the income protection allowance for a family of four and a family of five, with one in college	+	3,390
c. Alternate parents' AAI for more than 9-month enrollment (line a + line b)	=	
d. Total parents' contribution from AAI (calculate from Table A6, using alternate AAI)		
e. Number in college (FAFSA/SAR #78)	÷	
f. Alternate parents' contribution for student	=	
g. Standard parents' contribution for the student for 9-month enrollment (from line 30)	-	
h. Difference (line f minus line g)	=	
i. Divide line h by 12 months	÷	12
j. Parents' contribution per month	=	
k. Number of months student will be enrolled that exceed 9	X	
l. Adjustment to parents' contribution for months that exceed 9 (multiply line j by line k)	=	
m. Standard parents' contribution for 9-month enrollment (from line 30)	+	
n. **Parents' contribution for MORE than 9-month enrollment ***	=	

* Substitute the parents' contribution for LESS or MORE than 9-month enrollment in place of the parents' contribution for 9-month enrollment on EFC Formula Worksheet A, line 30.

Table A1: State and Other Tax Allowance

for EFC Formula Worksheet A (parents only)

STATE	PERCENT OF TOTAL INCOME	
	$0-14,999	$15,000 or more
Alabama	5%	4%
Alaska	3%	2%
American Samoa	4%	3%
Arizona	6%	5%
Arkansas	6%	5%
California	8%	7%
Canada	4%	3%
Colorado	7%	6%
Connecticut	6%	5%
Delaware	8%	7%
District of Columbia	10%	9%
Federated States of Micronesia	4%	3%
Florida	4%	3%
Georgia	7%	6%
Guam	4%	3%
Hawaii	8%	7%
Idaho	7%	6%
Illinois	6%	5%
Indiana	6%	5%
Iowa	8%	7%
Kansas	7%	6%
Kentucky	7%	6%
Louisiana	4%	3%
Maine	9%	8%
Marshall Islands	4%	3%
Maryland	9%	8%
Massachusetts	9%	8%
Mexico	4%	3%
Michigan	9%	8%
Minnesota	9%	8%
Mississippi	5%	4%
Missouri	6%	5%
Montana	8%	7%
Nebraska	8%	7%
Nevada	3%	2%
New Hampshire	7%	6%
New Jersey	8%	7%
New Mexico	6%	5%
New York	11%	10%
North Carolina	8%	7%
North Dakota	6%	5%
Northern Mariana Islands	4%	3%
Ohio	8%	7%
Oklahoma	6%	5%
Oregon	10%	9%
Palau	4%	3%
Pennsylvania	7%	6%
Puerto Rico	4%	3%
Rhode Island	9%	8%
South Carolina	8%	7%
South Dakota	4%	3%
Tennessee	3%	2%
Texas	3%	2%
Utah	8%	7%
Vermont	8%	7%
Virgin Islands	4%	3%
Virginia	8%	7%
Washington	4%	3%
West Virginia	6%	5%
Wisconsin	10%	9%
Wyoming	3%	2%
Blank or invalid State	4%	3%
OTHER	4%	3%

Multiply parents' total income (from EFC formula Worksheet A, line 7) by the appropriate rate from the table above to get the "state and other tax allowance." Use the parents' STATE OF LEGAL RESIDENCE (FAFSA/SAR #79). If this item is blank or invalid, use the student's STATE OF LEGAL RESIDENCE (FAFSA/SAR #25). If both items are blank or invalid, use the STATE in the student's mailing address (FAFSA/SAR #6). If all three items are blank or invalid, use the rate for a blank or invalid state above.

Table A2: Social Security Tax

Calculate separately the Social Security tax of father, mother, and student.

Income Earned from Work *	Social Security Tax
$0 - $68,400	7.65% of income
$68,401 or greater	$5,232.60 + 1.45% of amount over $68,400

* Father's 1998 income earned from work is FAFSA/SAR #68.
Mother's 1998 income earned from work is FAFSA/SAR #69.
Student's 1998 income earned from work is FAFSA/SAR #45.
Social Security tax will never be less than zero.

Table A3: Income Protection Allowance

Number in parents' household, including student (FAFSA/SAR #77)	Number of college students in household (FAFSA/SAR #78)				
	1	2	3	4	5
2	$12,260	$10,160	——	——	——
3	15,260	13,180	$11,080	——	——
4	18,850	16,750	14,670	$12,570	——
5	22,240	20,140	18,060	15,960	$13,880
6	26,010	23,920	21,830	19,740	17,650

NOTE: For each additional family member, add $2,940.
For each additional college student, subtract $2,090.

Table A4: Business/Farm Net Worth Adjustment

for EFC Formula Worksheet A (parents only)

If the net worth of a business or farm is—	Then the adjusted net worth is—
Less than $1	$0
$1 to $85,000	40% of net worth of business & farm
$85,001 to $260,000	$ 34,000 + 50% of excess over $85,000
$260,001 to $435,000	$121,500 + 60% of excess over $260,000
$435,001 or more	$226,500 + 100% of excess over $435,000

Table A5: Education Savings and Asset Protection Allowance

for EFC Formula Worksheet A (parents only)

AGE OF OLDER PARENT *	Allowance if there are two parents	Allowance if there is only one parent	AGE OF OLDER PARENT *	Allowance if there are two parents	Allowance if there is only one parent
25 or less..	0	0	45	42,500	26,800
26	2,500	1,600	46	43,500	27,400
27	5,000	3,200	47	44,600	28,000
28	7,500	4,800	48	45,800	28,700
29	10,000	6,400	49	46,900	29,400
30	12,500	8,000	50	48,400	30,100
31	15,000	9,600	51	49,600	30,700
32	17,500	11,200	52	50,900	31,600
33	19,900	12,900	53	52,500	32,300
34	22,400	14,500	54	53,800	33,100
35	24,900	16,100	55	55,400	33,900
36	27,400	17,700	56	57,100	34,700
37	29,900	19,300	57	58,900	35,700
38	32,400	20,900	58	60,700	36,500
39	34,900	22,500	59	62,500	37,600
40	37,400	24,100	60	64,400	38,700
41	38,400	24,500	61	66,600	39,700
42	39,400	25,100	62	69,000	40,900
43	40,400	25,600	63	71,000	42,000
44	41,400	26,200	64	73,400	43,200
			65 or more	75,900	44,400

AGE OF OLDER PARENT is FAFSA/SAR #82; if blank, use age 45 on the table.

Table A6: Parents' Contribution From AAI

If parents' AAI is—	The parents' contribution from AAI is—
Less than -$3,409	-$750
-$3,409 to $11,000	22% of AAI
$11,001 to $13,700	$2,420 + 25% of AAI over $11,000
$13,701 to $16,500	$3,095 + 29% of AAI over $13,700
$16,501 to $19,300	$3,907 + 34% of AAI over $16,500
$19,301 to $22,100	$4,859 + 40% of AAI over $19,300
$22,101 or more	$5,979 + 47% of AAI over $22,100

Table A7: State and Other Tax Allowance

for EFC Formula Worksheet A (student only)

Alabama	3%
Alaska	0%
American Samoa	2%
Arizona	3%
Arkansas	4%
California	5%
Canada	2%
Colorado	4%
Connecticut	2%
Delaware	5%
District of Columbia	7%
Federated States of Micronesia	2%
Florida	1%
Georgia	4%
Guam	2%
Hawaii	6%
Idaho	5%
Illinois	2%
Indiana	4%
Iowa	5%
Kansas	4%
Kentucky	5%
Louisiana	2%
Maine	5%
Marshall Islands	2%
Maryland	6%
Massachusetts	5%
Mexico	2%
Michigan	4%
Minnesota	6%
Mississippi	3%
Missouri	3%
Montana	5%
Nebraska	4%
Nevada	0%
New Hampshire	1%
New Jersey	3%
New Mexico	4%
New York	7%
North Carolina	5%
North Dakota	2%
Northern Mariana Islands	2%
Ohio	5%
Oklahoma	4%
Oregon	6%
Palau	2%
Pennsylvania	3%
Puerto Rico	2%
Rhode Island	4%
South Carolina	5%
South Dakota	0%
Tennessee	0%
Texas	0%
Utah	5%
Vermont	4%
Virgin Islands	2%
Virginia	4%
Washington	0%
West Virginia	4%
Wisconsin	5%
Wyoming	0%
Blank or Invalid State	2%
OTHER	2%

Multiply the total income of student (EFC Formula Worksheet A, line 37) by the appropriate rate from the table above to get the "state and other tax allowance." Use the student's STATE OF LEGAL RESIDENCE (FAFSA/SAR #25). If this item is blank or invalid, use the STATE in student's mailing address (FAFSA/SAR #6). If both items are blank or invalid, use the parents' STATE OF LEGAL RESIDENCE (FAFSA/SAR #79). If all three items are blank or invalid, use the rate for a blank or invalid state above.

FORMULA FOR INDEPENDENT STUDENT WITHOUT DEPENDENTS OTHER THAN A SPOUSE

Formula for Independent Student without Dependents other than a Spouse Cite
Sec. 476

The EFC for an independent student without dependents other than a spouse is calculated using the information for the student and spouse provided on the FAFSA. The CPS calculates a contribution from available income, and a contribution from assets. The sum of these two is divided by the number in college in 1999-2000, as reported on the FAFSA. The result is the EFC for the 1999-2000 award period. Under the simplified formula, the contribution from assets isn't used.

At the end of this section are worksheets and tables that can be used to calculate the EFC for an independent student without dependents other than a spouse. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are greyed out.

Contribution from Available Income

To determine the student's contribution from available income, the student's available income is first calculated by subtracting total allowances from the student's total income. The allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number. The available income is then assessed at a rate of 50% to obtain the student's contribution from available income.

Total Income

The total income is the sum of the student's and his or her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see Chapter 6 of this publication for more on these exclusions). If the student and spouse are taxfilers, their AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not taxfilers, the calculation uses reported income earned from work. Untaxed income is included in the formula because it may have a considerable effect on the family's financial strength and, in some cases, may be the family's main source of income. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student or spouse are taxfilers. Total income can be a negative number.

Total Income Examples

Elizabeth is married, but has no other dependents. Her AGI is $35,000; her income earned from work is $10,000 and her husband's income earned from work is $25,000. She reported no untaxed income on the FAFSA, so her total taxable and untaxed income is $35,000. She reported $6,000 in exclusions on the FAFSA in question 71; therefore, her total income is $29,000.

Doug is a graduate student, and has no dependents. He didn't file a tax return, so he has no AGI. His income earned from work is $4,000. He reports no untaxed income and no exclusions on the FAFSA, so his total income is $4,000. Because Doug's parents have been paying his expenses, the FAA at Guerrero University makes an adjustment to Doug's application to account for their support. The FAA adds $12,000 as untaxed income. After the adjustment, Doug's total taxable and untaxed income is $16,000. He still has no exclusions on the FAFSA, so his total income is $16,000.

Allowances Against Income

Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it's set to zero.

- **State and other tax allowance.** Use Table B1. This allowance is a percentage of the student and spouse's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (2%). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student's and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table B2 to the student's income earned from work in 1998 and the spouse's income earned from work in 1998 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** The income protection allowance for an unmarried student is $4,250. For a married student, the income protection allowance is $4,250 if the student's spouse is enrolled at least half time and $7,250 if the student's spouse isn't enrolled at least half time.

- **Employment expense allowance.** Families with two working spouses have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. If the student isn't married, the employment expense allowance is zero. If the student is married but only one person is working (either the student or the student's spouse), the allowance is zero. If both the student and his or her spouse are working, the allowance is 35% of the lesser of the student's

Allowances and Contribution from Available Income Examples

Elizabeth reported income tax paid of $3,371. Her state of legal residence is Ohio, so her state and other tax allowance is $29,000 x 5% = $1,450. Her Social Security tax allowance is $10,000 x 7.65% = $765, and her husband's Social Security tax allowance is $25,000 x 7.65% = $1913. Her husband isn't enrolled at least half time, so her income protection allowance is $7,250. Her employment expense allowance is $2,800, because 35% of her income is $3,500. Elizabeth's total allowances equal $17,549. Her available income is $29,000 - $17,549 = $11,451, and her contribution from income is $11,551 x 50% = $5,726.

Doug reported zero U.S. income tax paid on the FAFSA. His state of legal residence is Florida, so on his original application his state and other tax allowance is $4,000 x 1% = $40. Doug's Social Security tax allowance is $4,000 x 7.65% =$306. His income protection allowance is $4,250, and his employment expense allowance is zero. Doug's total allowances equal $4,596. His available income is $4,000 - $4,596 = -$596, and his contribution from income is $596 x 50% = -$298. After the FAA at Guerrero makes her professional judgment adjustment, his state and other tax allowance is $16,000 x 1% = $160. The other allowances are the same as before, and now Doug's total allowances equal $4,716. His available income is $16,000 - $4,716 = $11,284, and his contribution from income is $11,284 x 50% = $5,642.

income earned from work (question 45) or the spouse's income earned from work (question 46), but may not exceed $2,800.

Contribution from Assets

For students who qualify for the simplified formula, there is no contribution from assets. In the full formula, the assets of an independent student with no dependents other than a spouse are considered in order to fully measure the family's ability to contribute toward postsecondary educational costs.

First, the **net worth** of the student and spouse's assets is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table B3 to calculate the amount to be used.

Second, the student and spouse's **discretionary net worth** is calculated by subtracting the asset protection allowance (Table B4) from the net worth. The allowance increases with the age of the student as of December 31, 1999, which may be determined from the student's date of birth (as reported on the FAFSA). This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 35% to obtain the student and spouse's contribution from assets, which represents the portion of the value of the assets that is considered to be available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it's set to zero.

Contribution from Assets Examples

Elizabeth reported $900 for cash, savings, and checking on the FAFSA. Her husband also has a business with a negative net worth; following the instructions on the FAFSA, she reported this net worth as zero. The adjusted net worth of the business (the amount to be used in the EFC calculation) is also zero. Elizabeth is 24 years old, so her asset protection allowance is $0. Her discretionary net worth is $900 - $0 = $900. Multiplying this by the conversion rate of 35%, her contribution from assets is $315. Because Elizabeth and her husband were required to complete a 1040, Elizabeth doesn't qualify for the simplified formula.

Doug reported $20 for cash, savings, and checking on the FAFSA. He reported no other assets. He's 29 years old as of December 31, 1999, so his asset protection allowance is $6,400. His discretionary net worth is -$6,380; multiplying that amount by the conversion rate of 35% results in a negative number. Because the result is negative, Doug's contribution from assets is zero. Doug qualifies for the simplified formula, but because the contribution from assets is zero the EFC from the two formulas will be the same.

Final EFC Examples

Elizabeth's contribution from income and assets is $5,726 + $315 = $6,041. Because there's only one person in college, her EFC is also 6,041. If her husband were also enrolled in college, her income protection allowance would have been lower ($4,250), so her available income would be higher. Her contribution from income would have been $7,226, and her contribution from income and assets would have been $7,541. Because there would be two household members in college, this amount would have been divided by 2 to determine Elizabeth's EFC, 3,771.

On Doug's original application, his contribution from income and assets is -$298 + 0 = -$298. Dividing this by the number in college, 1, the EFC would be -298. Because this amount is less than zero, it's set to zero, and Doug's EFC is zero. After the FAA adjusts Doug's application to add in support from his parents, his contribution from income and assets is $5,642 + 0 = $5,642. Because there's only one person in college, this is also his EFC, $5,642.

Alternate EFCs for other than 9-month enrollment

The standard EFC is for a 9-month enrollment period. If the student will be enrolled for less or more than 9 months, the EFC is adjusted. The EFC is simply prorated by dividing the EFC by 9 and then multiplying the result by the number of months the student will be enrolled.

1999-2000 EFC FORMULA B: INDEPENDENT STUDENT
Without Dependent(s) Other Than A Spouse

REGULAR WORKSHEET **B**

STUDENT/SPOUSE INCOME IN 1998		
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #41)		
2. a. Student's income earned from work (FAFSA/SAR #45)		
2. b. Spouse's income earned from work (FAFSA/SAR #46)	+	
Total student/spouse income earned from work	= 2.	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)		
4. Untaxed income and benefits:		
• Earned Income Credit (tax filers only) (FAFSA/SAR #43)		
• Total from FAFSA Worksheet A (FAFSA/SAR #47)	+	
Total untaxed income and benefits	= 4.	
5. Taxable and untaxed income (sum of line 3 and line 4)		
6. Total from FAFSA Worksheet B (FAFSA/SAR #48)	–	
7. **TOTAL INCOME** (line 5 minus line 6) May be a negative number	=	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME		
8. 1998 U.S. income tax paid (FAFSA/SAR #42) (tax filers only); if negative, enter zero.		
9. State and other tax allowance (Table B1. If negative, enter zero.)	+	
10. Student's Social Security tax (Table B2)	+	
11. Spouse's Social Security tax (Table B2)	+	
12. Income protection allowance • $4,250 for unmarried student • $4,250 for married student if spouse is enrolled at least 1/2 time • $7,250 for married student if spouse isn't enrolled at least 1/2 time	+	
13. Employment expense allowance • If student is not married, allowance is zero. • If student is married but only one person is working (the student or spouse), the allowance is zero. • If student is married and both student and spouse are working, the allowance is 35% of the lesser of the earned incomes or $2,800, whichever is less.	+	
14. **TOTAL ALLOWANCES**	=	

CONTRIBUTION FROM AVAILABLE INCOME		
Total income (from line 7)		
Total allowances (from line 14)	–	
15. **AVAILABLE INCOME (AI)**	=	
16. Assessment rate	x	.50
17. **CONTRIBUTION FROM AI** May be a negative number	=	

STUDENT/SPOUSE CONTRIBUTION FROM ASSETS		
18. Cash, savings, & checking (FAFSA/SAR #49)		
19. Net worth of real estate & investments* (FAFSA/SAR #50) If negative, enter zero.		
20. Net worth of business (FAFSA/SAR #51) If negative, enter zero.		
21. Net worth of farm (FAFSA/SAR #52) If negative, enter zero. If the family resides on the farm, enter zero.		
22. Net worth of business/farm (sum of lines 20 and 21)		
23. Adjusted net worth of business/farm (Calculate using Table B3.)		
24. **Net worth** (sum of lines 18, 19, and 23)	=	
25. Asset protection allowance (Table B4)	–	
26. **Discretionary net worth** (line 24 minus line 25)		=
27. Asset conversion rate	x	.35
28. **CONTRIBUTION FROM ASSETS** If negative, enter zero.	=	

EXPECTED FAMILY CONTRIBUTION		
Contribution from AI (from line 17) May be a negative number		
Contribution from assets (from line 28)	+	
29. **Contribution from AI and assets**	=	
30. **Number in college in 1999-2000** (FAFSA/SAR #60)	÷	
31. **EXPECTED FAMILY CONTRIBUTION** for 9-month enrollment (if negative, enter zero)**	=	

* Do not include the student's home.

** To calculate the student's contribution for other than 9-month enrollment, see the next page.

NOTE: *Use this additional page to prorate the EFC only if the student will be enrolled for other than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

REGULAR
WORKSHEET
Page 2

B

Calculation of Expected Family Contribution for a Student Enrolled for Other than 9 Months

Expected Family Contribution (standard contribution for 9-month enrollment, from line 31)	
Divide by 9 ÷	9
Expected Family Contribution per month =	
Multiply by number of months enrollment x	
Expected Family Contribution for other than 9-month enrollment =	

1999-2000 EFC FORMULA B: INDEPENDENT STUDENT
Without Dependent(s) Other Than A Spouse

SIMPLIFIED WORKSHEET **B**

STUDENT/SPOUSE INCOME IN 1998		
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #41)		
2. a. Student's income earned from work (FAFSA/SAR #45)		
2. b. Spouse's income earned from work (FAFSA/SAR #46)	+	
Total student/spouse income earned from work	= 2	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)		
4. Untaxed income and benefits:		
• Earned Income Credit (tax filers only) (FAFSA/SAR #44)		
• Total from FAFSA Worksheet A (FAFSA/SAR #47)	+	
Total untaxed income and benefits	= 4	
5. Taxable and untaxed income (sum of line 3 and line 4)		
6. Total from FAFSA Worksheet B (FAFSA/SAR #48)	−	
7. **TOTAL INCOME** (line 5 minus line 6) May be a negative number	=	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME		
8. 1998 U.S. income tax paid (FAFSA/SAR #42) (tax filers only); if negative, enter zero		
9. State and other tax allowance (Table B1). If negative, enter zero.	+	
10. Student's Social Security tax (Table B2)	+	
11. Spouse's Social Security tax (Table B2)	+	
12. Income protection allowance: • $4,250 for unmarried student; • $4,250 for married student if spouse is enrolled at least 1/2 time; • $7,250 for married student if spouse isn't enrolled at least 1/2 time	+	
13. Employment expense allowance: • If student is not married, allowance is zero. • If student is married but only one person is working (the student or spouse), the allowance is zero. • If student is married and both student and spouse are working, the allowance is 35% of the lesser of the earned incomes or $2,800, whichever is less.	+	
14. TOTAL ALLOWANCES	=	

CONTRIBUTION FROM AVAILABLE INCOME		
Total income (from line 7)		
Total allowances (from line 14)	−	
15. **AVAILABLE INCOME (AI)**	=	
16. Assessment rate	×	.50
17. **CONTRIBUTION FROM AI** May be a negative number.	=	

STUDENT/SPOUSE CONTRIBUTION FROM ASSETS			
18. Cash, savings & checking (FAFSA/SAR #49)			
19. Net worth of real estate & investments* (FAFSA/SAR #50) If negative, enter zero.			
20. Net worth of business (FAFSA/SAR #51) If negative, enter zero.			
21. Net worth of farm (FAFSA/SAR #52) If negative, enter zero. If the family resides on the farm, enter zero.			
22. Net worth of business/farm (sum of lines 20 and 21)			
23. Adjusted net worth of business/farm (Calculate using Table B3.)			
24. **Net worth** (sum of lines 18, 19, and 23)	=		
25. Asset protection allowance (Table B4)	−		
26. **Discretionary net worth** (line 24 minus line 25)		=	
27. Asset conversion rate	×	.35	
28. **CONTRIBUTION FROM ASSETS** If negative, enter zero.	=		

EXPECTED FAMILY CONTRIBUTION		
Contribution from AI (from line 17) May be a negative number		
Contribution from assets (from line 28)	+	
29. **Contribution from AI and assets**	=	
30. **Number in college in 1999-2000** (FAFSA/SAR #63)	÷	
31. **EXPECTED FAMILY CONTRIBUTION** for 9-month enrollment (If negative, enter zero.)**	=	

* Do not include the student's home.

** To calculate the student's contribution for other than 9-month enrollment, see the next page.

NOTE: *Use this additional page to prorate the EFC only if the student will be enrolled for other than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

SIMPLIFIED
WORKSHEET
Page 2

B

Calculation of Expected Family Contribution for a Student Enrolled for Other than 9 Months		
Expected Family Contribution (standard contribution for 9-month enrollment, from line 31)		
Divide by 9	÷	9
Expected Family Contribution per month	=	
Multiply by number of months enrollment	×	
Expected Family Contribution for other than 9-month enrollment	=	

Table B1: State and Other Tax Allowance

Alabama	3%
Alaska	0%
American Samoa	2%
Arizona	3%
Arkansas	4%
California	5%
Canada	2%
Colorado	4%
Connecticut	2%
Delaware	5%
District of Columbia	7%
Federated States of Micronesia	2%
Florida	1%
Georgia	4%
Guam	2%
Hawaii	6%
Idaho	5%
Illinois	2%
Indiana	4%
Iowa	5%
Kansas	4%
Kentucky	5%
Louisiana	2%
Maine	5%
Marshall Islands	2%
Maryland	6%
Massachusetts	5%
Mexico	2%
Michigan	4%
Minnesota	6%
Mississippi	3%
Missouri	3%
Montana	5%
Nebraska	4%
Nevada	0%
New Hampshire	1%
New Jersey	3%
New Mexico	4%
New York	7%
North Carolina	5%
North Dakota	2%
Northern Mariana Islands	2%
Ohio	5%
Oklahoma	4%
Oregon	6%
Palau	2%
Pennsylvania	3%
Puerto Rico	2%
Rhode Island	4%
South Carolina	5%
South Dakota	0%
Tennessee	0%
Texas	0%
Utah	5%
Vermont	4%
Virgin Islands	2%
Virginia	4%
Washington	0%
West Virginia	4%
Wisconsin	5%
Wyoming	0%
Blank or Invalid State	2%
OTHER	2%

Multiply the total income of student and spouse (EFC Formula Worksheet B, line 7) by the appropriate rate from table above to get the "state and other tax allowance." Use the student's state of legal residence (FAFSA/SAR #25) reported on the FAFSA. If this item is blank or invalid, use the state in the student's mailing address (FAFSA/SAR #6). If both items are blank or invalid, use rate for blank or invalid state above.

Table B2: Social Security Tax

Calculate separately the Social Security tax of student and spouse.

Income Earned from Work *	Social Security Tax
$0 - $68,400	7.65% of income
$68,401 or greater	$5,232.60 + 1.45% of amount over $68,400

* Student's 1998 income earned from work is FAFSA/SAR #45.
Spouse's 1998 income earned from work is FAFSA/SAR #46.
Social Security tax will never be less than zero.

Table B3: Business/Farm Net Worth Adjustment

If the net worth of a business or farm is—	Then the adjusted net worth is—
Less than $1	$0
$1 to $85,000	40% of net worth of business & farm
$85,001 to $260,000	$ 34,000 + 50% of excess over $85,000
$260,001 to $435,000	$121,500 + 60% of excess over $260,000
$435,001 or more	$226,500 + 100% of excess over $435,000

Table B4
Asset Protection Allowance

Age of student as of 12/31/99 *	Allowance for— Married Student	Allowance for— Unmarried Student
25 or less..	0	0
26	2,500	1,600
27	5,000	3,200
28	7,500	4,800
29	10,000	6,400
30	12,500	8,000
31	15,000	9,600
32	17,500	11,200
33	19,900	12,900
34	22,400	14,500
35	24,900	16,100
36	27,400	17,700
37	29,900	19,300
30	32,400	20,900
39	34,900	22,500
40	37,400	24,100
41	38,400	24,500
42	39,400	25,100
43	40,400	25,600
44	41,400	26,200
45	42,500	26,800
46	43,500	27,400
47	44,600	28,000
48	45,800	28,700
49	46,900	29,400
50	48,400	30,100
51	49,600	30,700
52	50,900	31,600
53	52,500	32,300
54	53,800	33,100
55	55,400	33,900
56	57,100	34,700
57	58,900	35,700
58	60,700	36,500
59	62,500	37,600
60	64,400	38,700
61	66,600	39,700
62	69,000	40,900
63	71,000	42,000
64	73,400	43,200
65 or more	75,900	44,400

* Determine student's age as of 12/31/99 from student's date of birth (FAFSA/SAR #9)

Formula for Independent Student with Dependents other than a Spouse Cite
Sec. 477

FORMULA FOR INDEPENDENT STUDENT WITH DEPENDENTS OTHER THAN A SPOUSE

The EFC for an independent student with dependents other than a spouse is calculated using the information for the student and spouse provided on the FAFSA. The formula is almost the same as the formula for the parents of a dependent student. There are three basic steps. First, the student's available income is determined. Then, the student's contribution from assets is calculated. Finally, the EFC is calculated using the available income, the contribution from assets, and the number in college.

At the end of this section are worksheets and tables that can be used to calculate the EFC for an independent student without dependents other than a spouse. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are greyed out.

Available income

Available income is calculated by subtracting certain allowances from the student's total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

Student's total income

The student's total income is the sum of the student's and his or her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see Chapter 6 of this publication for more information on these exclusions). If the student and spouse are taxfilers, AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not taxfilers, the calculation uses reported income earned from work. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student and spouse are taxfilers. Total income can be a negative number.

Allowances against income

Total allowances are calculated by adding the following:

- **U.S. Income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it is set to zero.

- **State and other tax allowance.** Use Table C1. This allowance is a percentage of the total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the total income is below $15,000 or is $15,000 or more. The state to be used is the student's state of legal residence reported on the

Total Income Examples

Allen is married and has two children. He reports an AGI of $55,000 on the FAFSA. His income earned from work is $15,000 and his wife's income earned from work is $40,000. He also listed $1,000 in untaxed income on the FAFSA in question 47. His total taxable and untaxed income is $56,000. He reported no exclusions on the FAFSA in question 48, therefore, his total income is $56,000.

Eddy is an independent student. He and his wife are separated, but his nephew Chase is his dependent. He reported an AGI of $33,000 on the FAFSA, and also reported income earned from work of $12,500. He listed no untaxed income and no exclusions, so his total income is $33,000. However, Eddy's application is selected for verification. When Guerrero University reviews Eddy's tax form, it discovers that the AGI Eddy reported included his wife's income. Guerrero determines that Eddy should have reported an AGI of $12,950. He still has no untaxed income or exclusions, so when he makes the correction his total income will be $12,950.

FAFSA. If this item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (4% for total income below $15,000; 3% for total income of $15,000 or more). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student's and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table C2 to the student's income earned from work and the spouse's income earned from work in 1998 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** Use Table C3. This allowance is a provision for the basic living expenses of a family. The allowance varies according to the number in the student's household and the number in college in 1999-2000, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA").

- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. When both the student and spouse work, the allowance is 35% of the lesser of the student's income earned from work (question 45) or the spouse's income earned from work (question 46), but may not exceed $2,900. If the student isn't married, the allowance is 35% of the student's income earned from work, or $2,900, whichever is less. If a student is married and only the student or the spouse (but not both) reports an income earned from work, the

Allowance and Available Income Examples

Allen reported on the FAFSA that he paid $5,569 in U.S. income tax. He lives in New York, so the percentage he uses for calculating state and local taxes is 10%. His allowance for state and local taxes is $56,000 x 10%=$5,600. His Social Security tax allowance is $15,000 x 7.65%=$1,148; his wife's Social Security tax allowance is $40,000 x 7.65%=$3,060. He reported a household size of four, with one household member in college, so his income protection allowance is $18,850. His employment expense allowance is $2,800, because 35% of his income (the lower of the two) is $5,250. Therefore, the total allowances used in calculating Allen's EFC are $37,027. His available income is $18,973.

Eddy reported $1,864 U.S. income tax paid on the FAFSA. He lives in Florida, so the percentage he uses for calculating state and local taxes is 3%. His allowance for state and local taxes is $33,000 x 3% = $990. His Social Security tax allowance is $12,500 x 7.65%=$956. His household size is two, with two in college, so his income protection allowance is $10,160. Because he's not married, his employment expense allowance is $2,800 (35% of his income earned from work is $4,375). The total allowances used in calculating Eddy's EFC on his original application are $16,770, and his available income is $16,230. In verifying Eddy's application, Guerrero discovers that the amount Eddy reported for taxes paid included tax on his wife's income. Because they're separated, he should only have included his own part of the U.S. income tax paid, which was $197. Also, when he makes the income correction, his allowance for state and local taxes will be $12,950 x 4% = $518. The other allowances are still the same, so his total allowances when he makes the correction will be $14,631, and his available income will be $1,683.

allowance is zero. The employment expense allowance is never less than zero.

Contribution from Assets

In the full formula, the assets of an independent student with dependents other than a spouse are considered in order to fully measure the family's ability to contribute toward postsecondary educational costs. The formula evaluates the family's asset situation and determines a "contribution from assets," an amount that is combined with available income to give an accurate picture of the family's financial strengths. In the simplified formula, the assets aren't counted at all.

First, the **net worth** of a student and spouse's assets is calculated by adding assets reported on the FAFSA. The net worth of a business or farm is adjusted to protect a portion of these assets. Use Table C4 to calculate the amount to be used.

Second, the student and spouse's **discretionary net worth** is calculated by subtracting the asset protection allowance (Table C5) from the net worth. The allowance increases with the age of the student as of December 31, 1999, which may be determined from the student's date of birth (as reported on the FAFSA). This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 12% to obtain the **contribution from assets,** which represents

Contribution from Assets Examples

Allen reported $4,000 for cash, savings, and checking on the FAFSA. He also reported $15,000 for the net worth of investments. His net worth is $19,000. Allen is 32, so his asset protection allowance is $17,500. His discretionary net worth is $19,000 - $17,500 = $1,500. Multiplying this by the conversion rate of 12%, his contribution from assets is $180.

Eddy reported $100 for cash, savings, and checking on the FAFSA. He reported no other assets. His net worth is $100. Eddy is 28, so his asset protection allowance is $4,800. His discretionary net worth is $100 - $4,800 = -$4,700. Multiplying this by the conversion rate of 12% produces a negative number, so Eddy's contribution from assets is zero. Eddy qualifies for the simplified formula, but the secondary EFC he gets will be the same as the primary EFC.

the portion of the value of the student and spouse's assets that may be considered to be available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

Calculation of Student's EFC

This is the final step in determining the EFC for the independent student with dependents other than a spouse. The available income and the contribution from assets are added together to obtain the adjusted available income. The adjusted available income can be a negative number. The total contribution from adjusted available income is calculated from using Table C8. This is the total amount the student's family is expected to contribute toward family postsecondary educational costs. The rates in Table C8 increase from 22% to 47% as the adjusted available income increases. The rate is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases, while the portion available for discretionary purposes increases. The larger the income, the easier it is for a family to contribute toward postsecondary educational costs with less effect on the maintenance of the family.

The EFC is calculated by dividing the total student's contribution from adjusted available income by the number in college in 1999-2000, as reported on the FAFSA. The result is the EFC for the 1999-2000 award period.

EFC Calculation Examples

Allen's available income is $18,973 and his contribution from assets is $180, so his adjusted available income is $19,153. The total contribution from adjusted available income is $3,907 + ($2,653 x 34%) = $4,809. Because the number of household members in college is one, Allen's EFC is also 4,809.

Eddy's available income from his original application $16,230, and his contribution from assets is zero. His adjusted available income is $16,230. The total contribution from adjusted available income is $3,095 + ($2,530 x 29%) = $3,829. Because there are two household members in college, the total contribution from adjusted available income is divided by two to produce the EFC, so Eddy's EFC is 1,915. After he fixes the problems discovered through verification, his available income is -$1,681. His contribution from assets is still zero, so his adjusted available income is -$1,681. According to Table C6, Eddy's total contribution from adjusted available income is -$1,681 x 22% = -$370. Because this amount is negative, the total contribution from adjusted available income is set to zero. Dividing this by two results in an EFC of zero.

Alternate EFCs for other than 9-month enrollment

The standard EFC is for a 9-month enrollment period. If the student will be enrolled for less or more than 9 months, the EFC is adjusted accordingly (see page 2 of Worksheet C). The EFC is simply prorated by dividing the EFC by 9 and then multiplying the result by the number of months the student will be enrolled.

1999-2000 EFC FORMULA C: INDEPENDENT STUDENT
With Dependent(s) Other Than A Spouse

REGULAR WORKSHEET **C**

STUDENT/SPOUSE INCOME IN 1998		
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #41)	*	
2. a. Student's income earned from work (FAFSA/SAR #45)		
2. b. Spouse's income earned from work (FAFSA/SAR #46)	+	
Total student/spouse income earned from work	= 2	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)		
4. Untaxed income and benefits:		
• Earned Income Credit (tax filers only) (FAFSA/SAR #44)		
• Total from FAFSA Worksheet A (FAFSA/SAR #47)	+	
Total untaxed income and benefits	= 4	
5. Taxable and untaxed income (sum of line 3 and line 4)		
6. Total from FAFSA Worksheet B (FAFSA/SAR #48)	–	
7. **TOTAL INCOME** (line 5 minus line 6) May be a negative number	=	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME		
8. 1998 U.S. income tax paid (FAFSA/SAR #42) (tax filers only); if negative, enter zero		
9. State and other tax allowance (Table C1. If negative, enter zero.)	+	
10. Student's Social Security tax (Table C2)	+	
11. Spouse's Social Security tax (Table C2)	+	
12. Income protection allowance (Table C3)	+	
13. Employment expense allowance:		
• Student and spouse both working: 35% of the lesser of the earned incomes, or $2,800, whichever is less		
• One-parent families: 35% of earned income, or $2,800, whichever is less		
• Student or spouse working (not both): zero	+	
14. **TOTAL ALLOWANCES**	=	

AVAILABLE INCOME		
Total income (from line 7)		
Total allowances (from line 14)	–	
15. **AVAILABLE INCOME (AI)** May be a negative number	=	

* STOP HERE if both of the following are true: line 3 is $12,000 or less, and the student & spouse are eligible to file a 1998 IRS Form 1040A or 1040EZ (they are not required to file a 1998 Form 1040), or they are not required to file any income tax return — the student's EFC is zero.

STUDENT/SPOUSE CONTRIBUTION FROM ASSETS			
16. Cash, savings, & checking (FAFSA/SAR #49)			
17. Net worth of real estate & investments** (FAFSA/SAR #50) If negative, enter zero.			
18. Net worth of business (FAFSA/SAR #51) If negative, enter zero.			
19. Net worth of farm (FAFSA/SAR #52) If negative, enter zero. If the family resides on the farm, enter zero.			
20. Net worth of business/farm (sum of lines 18 and 19)			
21. Adjusted net worth of business/farm (Calculate using Table C4.)	+		
22. **Net worth** (sum of lines 16, 17, and 21)	=		
23. Asset protection allowance (Table C5)	–		
24. **Discretionary net worth** (line 22 minus line 23)	=		
25. Asset conversion rate	x		.12
26. **CONTRIBUTION FROM ASSETS** If negative, enter zero.	=		

EXPECTED FAMILY CONTRIBUTION		
Available income (AI) (from line 15)		
Contribution from assets (from line 26)	+	
27. **Adjusted available income (AAI)** May be a negative number	=	
28. **Total contribution from AAI** (Calculate using Table C6; if negative, enter zero.)		
29. **Number in college in 1999-2000** (FAFSA/SAR #62)	÷	
30. **EXPECTED FAMILY CONTRIBUTION** for 9-month enrollment***	=	

** Do not include the student's home.

*** To calculate the EFC for other than 9-month enrollment, see the next page.

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NOTE: *Use this additional page to prorate the EFC only if the student will be enrolled for other than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

REGULAR
WORKSHEET
Page 2

C

Calculation of Expected Family Contribution for a Student Enrolled for Other than 9 Months

Expected Family Contribution (standard contribution for 9-month enrollment, from line 31)		
Divide by 9	÷	9
Expected Family Contribution per month	=	
Multiply by number of months enrollment	x	
Expected Family Contribution for other than 9-month enrollment	=	

1999-2000 EFC FORMULA C: INDEPENDENT STUDENT
With Dependent(s) Other Than A Spouse

SIMPLIFIED WORKSHEET **C**

STUDENT/SPOUSE INCOME IN 1998

1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #41)		
2. a. Student's income earned from work (FAFSA/SAR #44)		
2. b. Spouse's income earned from work (FAFSA/SAR #45)	+	
Total student/spouse income earned from work	= 2	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)		
4. Untaxed income and benefits:		
• Earned Income Credit (tax filers only) (FAFSA/SAR #46)		
• Total from FAFSA Worksheet A (FAFSA/SAR #47)	+	
Total untaxed income and benefits	= 4	
5. Taxable and untaxed income (sum of line 3 and line 4)		
6. Total from FAFSA Worksheet B (FAFSA/SAR #48)	−	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number	=	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME

8. 1998 U.S. income tax paid (FAFSA/SAR #42) (tax filers only); if negative, enter zero		
9. State and other tax allowance (Table C1. If negative, enter zero.)	+	
10. Student's Social Security tax (Table C2)	+	
11. Spouse's Social Security tax (Table C2)	+	
12. Income protection allowance (Table C3)	+	
13. Employment expense allowance:		
• Student and spouse both working: 35% of the lesser of the earned incomes, or $2,800, whichever is less		
• One-parent families: 35% of earned income, or $2,800, whichever is less		
• Student or spouse working (not both): zero	+	
14. TOTAL ALLOWANCES	=	

AVAILABLE INCOME

Total income (from line 7)		
Total allowances (from line 14)	−	
15. AVAILABLE INCOME (AI) May be a negative number	=	

* STOP HERE if both of the following are true: line 3 is $12,000 or less, and the student & spouse are eligible to file a 1998 IRS Form 1040A or 1040EZ (they are not required to file a 1998 Form 1040) or they are not required to file any income tax return -- the student's EFC is zero.

STUDENT/SPOUSE CONTRIBUTION FROM ASSETS

16. Cash, savings & checking (FAFSA/SAR #49)			
17. Net worth of real estate & investments** (FAFSA/SAR #50) If negative, enter zero.			
18. Net worth of business (FAFSA/SAR #51) If negative, enter zero.			
19. Net worth of farm (FAFSA/SAR #52) If negative, enter zero. If the family resides on the farm, enter zero.			
20. Net worth of business/farm (sum of lines 18 and 19)			
21. Adjusted net worth of business/farm (Calculate using Table C4.)	+		
22. Net worth (sum of lines 16, 17, and 21)	=		
23. Asset protection allowance (Table C5)	−		
24. Discretionary net worth (line 22 minus line 23)	=		
25. Asset conversion rate	×		.07
26. CONTRIBUTION FROM ASSETS If negative, enter zero.	=		

EXPECTED FAMILY CONTRIBUTION

Available income (AI) (from line 15)		
Contribution from assets (from line 26)	+	
27. Adjusted available income (AAI) May be a negative number	=	
28. Total contribution from AAI (Calculate using Table C6. If negative, enter zero.)		
29. Number in college in 1999-2000 (FAFSA/SAR #62)	÷	
30. EXPECTED FAMILY CONTRIBUTION for 9-month enrollment***	=	

** Do not include the family's home.

*** To calculate the EFC for other than 9-month enrollment, see the next page.

NOTE: *Use this additional page to prorate the EFC only if the student will be enrolled for other than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

SIMPLIFIED WORKSHEET
Page 2

C

Calculation of Expected Family Contribution for a Student Enrolled for Other than 9 Months

Expected Family Contribution (standard contribution for 9-month enrollment, from line 33)		
Divide by 9	÷	9
Expected Family Contribution per month	=	
Multiply by number of months enrollment	×	
Expected Family Contribution for other than 9-month enrollment	=	

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Table C1: State and Other Tax Allowance

STATE	PERCENT OF TOTAL INCOME		STATE	PERCENT OF TOTAL INCOME	
	$0-14,999	$15,000 or more		$0-14,999	$15,000 or more
Alabama	5%	4%	Missouri	6%	5%
Alaska	3%	2%	Montana	8%	7%
American Samoa	4%	3%	Nebraska	8%	7%
Arizona	6%	5%	Nevada	3%	2%
Arkansas	6%	5%	New Hampshire	7%	6%
California	8%	7%	New Jersey	8%	7%
Canada	4%	3%	New Mexico	6%	5%
Colorado	7%	6%	New York	11%	10%
Connecticut	6%	5%	North Carolina	8%	7%
Delaware	8%	7%	North Dakota	6%	5%
District of Columbia	10%	9%	Northern Mariana Islands	4%	3%
Federated States of Micronesia	4%	3%	Ohio	8%	7%
Florida	4%	3%	Oklahoma	6%	5%
Georgia	7%	6%	Oregon	10%	9%
Guam	4%	3%	Palau	4%	3%
Hawaii	8%	7%	Pennsylvania	7%	6%
Idaho	7%	6%	Puerto Rico	4%	3%
Illinois	6%	5%	Rhode Island	9%	8%
Indiana	6%	5%	South Carolina	8%	7%
Iowa	8%	7%	South Dakota	4%	3%
Kansas	7%	6%	Tennessee	3%	2%
Kentucky	7%	6%	Texas	3%	2%
Louisiana	4%	3%	Utah	8%	7%
Maine	9%	8%	Vermont	8%	7%
Marshall Islands	4%	3%	Virgin Islands	4%	3%
Maryland	9%	8%	Virginia	8%	7%
Massachusetts	9%	8%	Washington	4%	3%
Mexico	4%	3%	West Virginia	6%	5%
Michigan	9%	8%	Wisconsin	10%	9%
Minnesota	9%	8%	Wyoming	3%	2%
Mississippi	5%	4%	Blank or invalid State	4%	3%
			OTHER	4%	3%

Multiply the total income of student and spouse (from EFC Formula Worksheet C, line 7) by the appropriate rate from the table above to get the "state and other tax allowance." Use the student's state of legal residence (FAFSA/SAR #25) reported on the FAFSA. If this item is blank or invalid, use the state in the student's mailing address (FAFSA/SAR #6). If both items are blank or invalid, use the rate for blank or invalid state above.

Table C2: Social Security Tax

Calculate separately the Social Security tax of student and spouse.

Income Earned from Work *	Social Security Tax
$0 - $68,400	7.65% of income
$68,401 or greater	$5,232.60 + 1.45% of amount over $68,400

* Student's 1998 income earned from work is FAFSA/SAR #41.
Spouse's 1998 income earned from work is FAFSA/SAR #42.
Social Security tax will never be less than zero.

Table C3: Income Protection Allowance

Number in student's household, including student (FAFSA/SAR #64)	Number of college students in household (FAFSA/SAR #65)				
	1	2	3	4	5
2	$12,280	$10,180	—	—	—
3	15,280	13,180	$11,080	—	—
4	18,850	16,750	14,670	$12,570	—
5	22,240	20,140	18,060	15,960	$13,880
6	26,010	23,920	21,830	19,740	17,650

NOTE: For each additional family member, add $3,390.
For each additional college student, subtract $2,090.

Table C4: Business/Farm Net Worth Adjustment

If the net worth of a business or farm is—	Then the adjusted net worth is—
Less than $1	$0
$1 to $85,000	40% of net worth of business & farm
$85,001 to $260,000	$ 34,000 + 50% of excess over $85,000
$260,001 to $435,000	$121,500 + 60% of excess over $260,000
$435,001 or more	$226,500 + 100% of excess over $435,000

Table C5: Asset Protection Allowance

Age of student as of 12/31/99*	Allowance for —		Age of student as of 12/31/99*	Allowance for —	
	Married Student	Unmarried Student		Married Student	Unmarried Student
25 or less	0	0	45	42,500	26,800
26	2,500	1,600	46	43,500	27,400
27	5,000	3,200	47	44,600	28,000
28	7,500	4,800	48	45,800	28,700
29	10,000	6,400	49	46,900	29,400
30	12,500	8,000	50	48,400	30,100
31	15,000	9,600	51	49,600	30,700
32	17,500	11,200	52	50,900	31,400
33	19,900	12,900	53	52,300	32,300
34	22,400	14,500	54	53,800	33,100
35	24,900	16,100	55	55,400	33,900
36	27,400	17,700	56	57,100	34,700
37	29,900	19,300	57	58,900	35,700
38	32,400	20,900	58	60,700	36,500
39	34,900	22,500	59	62,500	37,600
40	37,400	24,100	60	64,800	38,700
41	38,400	24,500	61	66,600	39,700
42	39,400	25,100	62	69,000	40,900
43	40,400	25,600	63	71,000	42,000
44	41,400	26,200	64	73,800	43,200
			65 or more	75,900	44,400

* Determine student's age as of 12/31/99 from student's date of birth (FAFSA/SAR #9).

Table C6: Contribution From AAI

If student's AAI is— is—			The student's contribution from AAI
Less than -$3,409			-$750
-$3,409	to	$11,000	22% of AAI
$11,001	to	$13,700	$2,420 + 25% of AAI over $11,000
$13,701	to	$16,500	$3,095 + 29% of AAI over $13,700
$16,501	to	$19,300	$3,907 + 34% of AAI over $16,500
$19,301	to	$22,100	$4,859 + 40% of AAI over $19,300
$22,101	or more		$5,979 + 47% of AAI over $22,100

Verification

CHAPTER 8

Because the effectiveness of the federal student financial aid programs depends on the accuracy of the data students report, schools must verify information provided by students the CPS selects. In doing so, schools must follow the procedures established by regulation. In this chapter, we discuss the verification requirements and process.

GENERAL REQUIREMENTS

The verification requirements explained in this chapter apply to all applicants for most SFA programs. Verification isn't required for the Leveraging Educational Assistance Partnership (LEAP) Program (formerly the State Student Incentive Grant Program), unless the school is certain that a student's state grant contains federal funds, or for the Robert C. Byrd Honors Scholarship Program. For the Direct Loan and FFEL programs, verification isn't required for unsubsidized student loans or for PLUS Loans. However, a student can't avoid the verification requirements by choosing to borrow an unsubsidized loan instead of a subsidized loan. If a student selected for verification attempts to do this, the school is to continue the verification process anyway. Also, verification is not required for Federal Stafford Loans received for study at eligible foreign schools.

Verification Regulations Cite
34 CFR 668, Subpart E

Required Policies Cite
34 CFR 668.53

Required Policies

The school must have written policies on the following verification issues:

- deadlines for students to submit documentation and consequences of the failure to meet those deadlines,
- method of notifying students of award changes resulting from verification,
- required correction procedures for students,
- means of publicizing requirements and procedures, and
- standard procedures for referring overpayment cases to the Department (see Chapter 3 of this publication for more information on handling overpayments).

Additionally, the school must give each applicant a written account of the following information:

- **Documentation requirements.** A clear explanation of the documentation needed to satisfy the verification requirements;
- **Student responsibilities.** An explanation of the student's responsibilities with respect to the verification requirements, including the deadlines for completing any actions required, the consequences of missing such deadlines, and required correction procedures; and
- **Notification methods.** The means by which the school will notify a student if his or her award changes as a result of verification, and the time frame for such notification.

Quality Assurance Program

Under the Title IV Quality Assurance (QA) Program, participating schools develop and implement a quality improvement approach to SFA program administration and delivery. QA schools are exempt from certain administrative and procedural requirements, including certain verification requirements. The QA Program methodology provides QA schools with an alternative management approach for developing and refining their own systems for verifying institutional and student financial aid application data. Participating schools should refer to the *QA Workbook* for verification exemptions. Note that all current requirements for disbursement, updating, and deadlines—and the consequences for failing to provide requested documents—still apply to QA schools.

APPLICATIONS TO BE VERIFIED

When verification is required for an application, that application is said to have been "selected" for verification. Applications are selected either by the CPS or by the school. Under certain circumstances, a selected application may be excluded from required verification (see "30% Verification Option" and "Verification Exclusions" later in this chapter).

The output document shows whether the student's application has been selected by the CPS. The Verification Tracking Flag, which is in the FAA Information Section with the match flags, will have a value if the application has been selected for verification. On the SAR, the CPS prints an asterisk next to the EFC to identify applications selected for verification. The SAR also has a comment notifying the student that the application has been selected for verification.

The number or letter in the Verification Tracking Flag is the verification selection code. These codes (A-C 1-32) are numbered in order of importance. If the school is verifying no more than 30% of the total number of its federal student aid applicants, it might want to select those applications with higher priority verification selection codes. (See "30% Verification Option".) For example, reasons 2, 5, 8,

30% Verification Examples

Benoit College has 1000 applicants for federal student aid. During processing, the CPS selected 475 of those students' applications for verification. Benoit also selects 100 other applications, based on its own criteria. To meet the 30% level, Benoit only needs to verify 300 applications, not all 575 that are selected. However, the 100 Benoit selected don't count toward meeting the 30% requirement, so Benoit must verify at least 300 of the applications the CPS selected for verification.

Brust Conservatory has 1000 applicants for federal student aid. During processing, the CPS selected 209 of those students' applications for verification. Brust must verify all 209 applications because that number isn't more than 30% of the total applicants. The school isn't required to verify more applications to reach the 30% level; the 30% verification option is not a quota.

Benoit Institute has 1000 applicants for federal student aid. During processing, the CPS selected 300 of those students' applications for verification. Also, the school identified 40 additional applications as having conflicting information. Benoit must resolve the conflicting information for these 40 students. However, because the resolution of conflicting information is separate from verification, these 40 applications don't count toward the 30% level. Benoit must also verify all 300 applications that were selected for verification, because this number isn't more than 30% of the total applicants for federal student aid.

and 10 have greater significance than reasons 13, 15, 19, and 24. Selecting applications with higher priority numbers is a suggestion, not a requirement.

A school may also select applications for verification. For applications a school selects, the school decides which items it wants to verify. The school can choose not to verify items that must be verified on CPS-selected applications and can also choose to verify items other than those required by the Department. However, all other verification requirements (such as deadlines and allowable interim disbursement rules, etc.) apply equally to all students who are being verified, regardless of whether the CPS or the school selected the application for verification.

30% Verification Option

Generally, a school must verify all applications the CPS selects for verification; however, the Department doesn't require a school to verify more than 30% of its total number of applicants for federal student assistance. If more than 30% of the school's applicants have been selected by the CPS for verification, the school may choose to verify all the selected applications, but the Department doesn't require it. Instead, the school can choose to stop verifying once 30% of its applicants have been verified (applications a school selects and applications with conflicting information don't count toward the 30% level). If the total number of selected applications is less than 30% of the school's total number of applicants for federal student aid, the school must verify **all** selected applications.

Definitions

Many schools have requested interpretation from the Department regarding the definitions of "applicant" and "applicant pool." However, the Department does not define these terms. Each school must

30% Verification Option Cite
34 CFR 668.54(a)(2)

Verification Exclusions Cite
34 CFR 668.54(b)

Incomplete Verification due to Death Cite
34 CFR 668.60(e)

Immigrant Example
Hector arrives in the United States in February 1999, and begins attending Guerrero University in September 1999. His 1999-2000 application is selected for verification. Guerrero determines that it doesn't have to verify Hector's application because he arrived during the 1999 calendar year.

Spouse Unavailable Example
Ursula is attending Lem Community College, and her application is selected for verification. She provided her husband's information on the application, but now explains that her husband has recently moved out, and she can't locate him. Ursula also gives Lem some documents to show that she's tried to locate her husband. Lem determines that Ursula doesn't need to provide verification of her husband's tax and income information, but still needs to verify her own information.

develop its definitions and apply them consistently. An applicant may be defined as any student who applies for federal financial aid or, more narrowly, as a student who is eligible to receive an award. Further, schools could define the total number of applicants for federal student assistance as the total number of applications received (regardless of whether the students are enrolled), as the total number of applications received from enrolled students, or as the total number of applications received from enrolled students who are eligible to receive an award. When the school uses a narrow pool and selects 30%, the students the school verifies must come from the pool designated and not from a broader pool.

Schools also must develop their own policies for determining the number of applications that constitutes 30% of their school's total applications. Schools must consistently adhere to and apply these policies, ensuring that selected applications are properly verified.

Verification Exclusions

A selected application may be exempt from some or all of the verification requirements due to certain unusual circumstances. Except in the case of the student's death, however, none of these verification exclusions excuses the school from the requirement to resolve conflicting information.

Death

If the school makes an interim disbursement during the verification process, and the student dies before verification is completed, the school doesn't have to continue verification to justify the first disbursement. In such a case, the school can't make any additional disbursements to any of the student's beneficiaries, except for FWS funds already earned. Also, the school cannot originate a Direct Loan, certify a Federal Stafford Loan, or deliver proceeds from either one for the student's beneficiaries.

Incarceration

A selected application does not have to be verified if the student is in jail or prison at the time of verification.

Student is a recent immigrant

For the 1999-2000 award year, a selected application does not have to be verified if the student is an immigrant who arrived in the United States during calendar years 1999 or 2000.

Spouse unavailable

A school isn't required to verify spouse information (or to obtain the appropriate signature for verification purposes) if any of the following conditions apply:

- The spouse is deceased or mentally or physically incapacitated.
- The spouse is residing in a country other than the United States and can't be contacted by normal means.

- The spouse can't be located because his or her address is unknown, and the student can't obtain it.

The school should document the basis for this exclusion in the student's file. This exclusion doesn't affect any other part of required verification; the selected application must still be verified according to all other requirements.

Parents unavailable

A school isn't required to verify a dependent student's application if any of the following conditions apply:

- The student's parents are deceased or mentally or physically incapacitated.[4]

- The parents are residing in a country other than the United States and can't be contacted by normal means.

- The parents can't be located because their address is unknown, and the student can't obtain it.

The school should document the basis for this exclusion in the student's file. If only one parent of a dependent student meets one of these conditions, the student and the remaining responsible parent are still subject to all verification requirements.

Verification completed at a previously attended school

A school isn't required to verify the selected application of a student who completed verification for the current award year at another school before transferring. To document a student's eligibility for this exclusion, a school must obtain a letter from the school that completed the verification. The letter must include

- a statement that the student's application data have been verified,

- the transaction number of the verified application, **and**

- if relevant, the reasons why the school was not required to recalculate the student's EFC (for example, the application errors may have been within the allowable tolerance—see "Verification tolerance," page 201).

In general, a financial aid transcript alone is **not** acceptable documentation for allowing a student this exclusion. However, if the school uses a financial aid transcript form that specifically asks for the necessary information, the transcript would be acceptable documentation as long as the other school provided all the information.

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[4] Note that if both parents are dead, the student is an orphan and so is an independent student. If the parents die after the student has applied, the student must update his or her dependency status (see Chapter 5).

Selection after Disbursement Example

Otoro is attending Guerrero University. His application isn't selected for verification, and he receives aid in the fall. In December, Otoro submits an address change on his SAR. That transaction is selected for verification. The FAA at Guerrero tells Otoro he needs to submit verification documents if he wants his aid for the spring, but Otoro doesn't turn in the documents. Otoro doesn't have to repay the aid he got in the fall, but Guerrero cancels his aid package for the spring. If Otoro does turn in the documents and complete verification before the year ends, Guerrero can give him the aid for the spring.

Required Verification Items Cite
34 CFR 668.56(a)

Pacific Island residency status

A school isn't required to verify the selected application of a student who is either

- a legal resident of Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands (to qualify for this exclusion, a dependent student's parents must also be legal residents of one of these former territories)
- a citizen of the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau (to qualify for this exclusion, a dependent student's parents must also be citizens of one of these former territories)

To document the basis for this exclusion, the school should note the permanent mailing address in the student's file.

No funds disbursed

If a student won't receive federal student aid for reasons other than his or her failure to complete verification, the school isn't required to complete verification. This category includes students ineligible for federal student aid or those who withdraw without receiving aid.

Selection after Disbursement

If a student or school submits corrections, the student's application may be selected for verification on that subsequent transaction. In some cases, the student may already have been paid based on the previous, unselected, output document. Because the student was eligible for that disbursement when it was made, the disbursement doesn't need to be repaid if verification isn't completed. However, the school can't make subsequent disbursements until the student's application is verified.

REQUIRED VERIFICATION ITEMS

For applications selected by the CPS for verification, a school must verify five major data elements:

- household size,
- number enrolled in college,
- adjusted gross income (AGI),
- U.S. income tax paid, and
- certain untaxed income and benefits.

In addition to verifying these required application data items for CPS-selected students, the school can choose to verify any other application items, requiring any reasonable documentation, in accordance with consistently applied institutional policies and

Acceptable Documentation

	Verification & Worksheet Tax Return(s)	*Other Documentation in lieu of Worksheet or Tax Return (see the text for details)*
Household Size	✓	Signed Statement
Number Enrolled	✓	Signed Statement and/or Institutional Certification
AGI & Taxes Paid	✓	IRS Letter 1722, RTFTR Form W-2, Form 4868, and/or Signed Statement
Untaxed Income & Benefits	✓	Official Agency Documentation and/or Signed Statement

procedures. The school decides which students must provide documentation for any additional data elements and what constitutes acceptable documentation.

General Documentation Requirements

For each required verification item, specific documentation is required, as described in the following sections. The school has the authority to **require** students to provide such documentation. To help schools, the Department has developed verification worksheets that collect most of the necessary documentation. You may reproduce the 1999-2000 worksheets without limitation, and they are available through a variety of sources: through EDExpress; from the Department's IFAP web site at <http://ifap.ed.gov>; and on pages 187 through 190 of this chapter.

When a student completes a verification worksheet and attaches the appropriate tax forms or alternative documents (discussed later), the school will usually have enough data to complete the verification process. Using a verification worksheet, therefore, simplifies the task of collecting and examining a student's documentation.

However, use of the federal worksheets isn't required. The school may use its own worksheet, or no worksheet at all. The school may require other documentation in addition to, or instead of, a completed verification worksheet. The chart on the next page shows other forms of acceptable documentation for each required verification item. Later in this chapter, these other documents are discussed in detail.

Timing of Signature

Any required signatures, such as signatures on worksheets or on copies of tax returns, must be collected at the time of verification, during the applicable award year. Signatures can't be collected after the verification deadline for that award year.

Using a Verification Worksheet

A school that requires its students to complete verification worksheets must provide the worksheets to its students. Upon completing the appropriate worksheet and attaching a copy of the relevant income tax returns or alternative documents, students should submit the documents to the school, not to the Department or to the FAFSA processor through which they applied. The school should make sure that all required worksheet sections are completed and appropriately signed and that the relevant tax returns or alternative documents are attached. As explained later in this section, copies (such as photocopies, faxes, digital images, etc.) of worksheets, tax returns, or other documentation are acceptable. Unless specifically noted in this chapter, an original signature—that is, a handwritten pen-and-ink signature that has not been duplicated—is not required. After checking the documentation against the student's application data, the school may either disburse the student's award or make the necessary corrections and updates. (See "After Documentation is Complete," page 201.)

1999-2000 Verification Worksheet

Federal Student Aid Programs

[illegible]

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your and your parent(s)' 1998 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you may need to send in corrections on your Student Aid Report (SAR), or your school may send corrections electronically, to have your information reprocessed.

Try to complete verification as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your and your parent(s)' financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Fill in and sign the worksheet - you and at least one parent.
4. Take the completed worksheet, tax forms, and any other documents your school needs to your financial aid administrator.
5. Your financial aid administrator will compare information on the documents. You may need to make corrections on your SAR and send it back to the application processor.

Your school must review the requested information, under the financial aid programs rules of *34 CFR, Part 668*.

A. Student Information

Last name First name M.I. Social security number

Address (include apt. no.) Date of birth

City State ZIP code Phone number (include area code)

B. Family Information

List the people in your parents' household; include:

- yourself and your parents, and
- your parents' other children, if (a) your parents provide more than half of their support or (b) the children would be required to provide parental information when applying for Federal Student Aid, and
- other people if they now live with your parents, and your parents provide more than half of their support and will continue to provide more than half of their support from July 1, 1999 through June 30, 2000.

Write the names of all family members. Also write in the name of the college for any family member who will be attending college at least half-time between July 1, 1999 and June 30, 2000, and will be enrolled in a degree or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Janet Jones	52	Mother	Central University
		Self	

[illegible]

BEST COPY AVAILABLE

C. Student's Tax Forms and Income Information

Dependent

1. For non-tax filers and all tax filers (includes the 1998 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return). If you did not keep a copy of the tax return, request an 8/19 IP printout or Letter 1722 from the Internal Revenue Service or a copy from your tax preparer.

   ☐ Check and attach signed tax return.
   ☐ Check and complete: signed tax return will be mailed to the school by ________________ (date)
   ☐ Check here if you will not file and are not required to file a 1998 U. S. Income Tax Return.

2. Amounts received for child support and other untaxed income (See Worksheet A on the Free Application for Federal Student Aid)

Sources of untaxed income	Amount	Sources of untaxed income	Amount
Child Support			
Social Security			
Welfare (including TANF)			

3. If you did not file and are not required to file a 1998 Federal income tax return, list below your employer(s) and any income received in 1998.

Sources (Use the W-2 forms or other earnings statements)	Amount

D. Parent(s)' Tax Forms and Income Information

1. For non-tax filers and all tax filers (includes the 1998 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return). If your parent(s) did not keep a copy of the tax return, request an 8/19 IP printout or Letter 1722 from the Internal Revenue Service or a copy from the tax preparer.

   ☐ Check and attach signed tax return.
   ☐ Check and complete: signed tax return will be mailed to the school by ________________ (date)
   ☐ Check here if your parent(s) will not file and are not required to file a 1998 U. S. Income Tax Return.

2. Amounts received for child support and other untaxed income.

Sources of untaxed income	Amount	Sources of untaxed income	Amount
Child Support			
Social Security			
Welfare (including TANF)			

3. If your parent(s) did not file and are not required to file a 1998 Federal income tax return, list below your parent(s)' employer(s) and any income received in 1998.

Sources (Use the W-2 forms or other earnings statements)	Amount

E. Sign this Worksheet

By signing this worksheet, we certify that all the information reported to qualify for Federal student aid is complete and correct. At least one parent must sign.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

Student ________________________ Date __________

Parent ________________________ Date __________

Do not mail this worksheet to your application processor. Take it to your Financial Aid Administrator. Don't forget your tax forms.

1999-2000 Verification Worksheet

Federal Student Aid Programs

[illegible]

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your (and your spouse's, if you are married) 1998 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you may need to send in corrections on your Student Aid Report (SAR), or your school may send corrections electronically, to have your information reprocessed.

Try to complete verification as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your (and your spouse's) financial documents (copied Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Fill in and sign the worksheet.
4. Take the completed worksheet, tax forms, and any other documents your school needs to your financial aid administrator.
5. Your financial aid administrator will compare information on the documents. You may need to make corrections on your SAR and send it back to the application processor.

Your school must review the requested information under the financial aid program rules (CFR Title 34, Part 668).

A. Student Information

Last name　First name　M.I.　Social security number

Address (include apt. no.)　Date of birth

City　State　ZIP code　Phone number (include area code)

B. Family Information

List the people in your household, include:

- yourself (and your spouse, if you have one), and
- your children, if you provide more than half of their support, and
- other people if they now live with you, and you provide more than half of their support and will continue to provide more than half of their support from July 1, 1999 through June 30, 2000.

Write the names of all family members. Also write in the name of the college for any family member who will be attending college at least half-time between July 1, 1999 and June 30, 2000, and will be enrolled in a degree or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Martha Jones	24	Wife	City University
		Self	

[illegible]

C. Student's Tax Forms and Income Information **Independent**

1. For income tax filers and all tax filers (includes the 1998 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record), a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of the tax return, request an RTVUE printout or Letter 1722 from the Internal Revenue Service or a copy from your tax preparer.

☐ Check and attach signed tax return.

☐ Check and complete: signed tax return will be mailed to the school by ______________ (date).

☐ Check here if you will not file and are not required to file a 1998 U.S. Income Tax Return.

2. Amounts received for child support and other untaxed income. (See Worksheets A and B of the Free Application for Federal Student Aid.)

Sources of untaxed income	Amount	Sources of untaxed income	Amount
Child Support			
Social Security			
Welfare (including TANF)			

3. If you did not file and are not required to file a 1998 Federal income tax return, list below your employer(s) and any income received in 1998.

Sources (Use the W-2 form or other earnings statement.)	Amount

D. Spouse's Tax Forms and Income Information (if student is married)

1. For income tax filers and all tax filers (includes the 1998 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record), a tax return from Puerto Rico or a foreign income tax return. If your spouse did not keep a copy of the tax return, request one from the Internal Revenue Service or from the tax preparer.

☐ Check and attach signed tax return.

☐ Check and complete: signed tax return will be mailed to the school by ______________ (date).

☐ Check here if you will not file and are not required to file a 1998 U.S. Income Tax Return.

2. Amounts received for child support and other untaxed income.

Sources of untaxed income	Amount	Sources of untaxed income	Amount
Child Support			
Social Security			
Welfare (including TANF)			

3. If your spouse did not file and is not required to file a 1998 Federal income tax return, list below your spouse's employer(s) and any income received in 1998.

Sources (Use the W-2 form or other earnings statement.)	Amount

E. Sign this Worksheet

By signing this worksheet, I (we) certify that all the information reported to qualify for Federal student aid is complete and correct. If married, spouse's signature is optional.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

Student ______________________ Date __________

Spouse ______________________ Date __________

Do not mail this worksheet to your application processor. Take it to your Financial Aid Administrator. Don't forget your tax forms.

Household Size

A student's household size generally includes any persons who are dependents of, or who receive more than half of their support from, the student's household. If the student completed a verification worksheet, no further documentation for this item is required. However, instead of the worksheet, the school may accept a statement signed by the student (and at least one of the student's parents, for dependent students), listing the names of the household members, their relationships to the student, and their ages.

The law specifies who is included in the student's household. This topic is discussed in more detail in Chapter 6, "Household Size," page [illegible].

When verification of household size is not required

The school doesn't have to verify household size in the following situations:

- The student's valid federal output document is received within 90 days of the date the application was signed.
- The household size is the same as the number reported for, and verified in, the previous award year.
- For dependent students: The parents are married, and the household size reported on the output document is three; or the parent is single, divorced, separated, or widowed, and the household size reported is two.
- For independent students: The student is married, and the household size reported is two; or the student is single, divorced, separated, or widowed, and the household size reported is one.

Number Enrolled in College

The student should **always** be included in this number, but others can be included only if they are counted in the household size and will be attending a postsecondary educational institution at least half time (6 credit hours per term for at least one term or 12 clock hours per week) between July 1, 1999 and June 30, 2000. These individuals must also be working toward a degree or certificate leading to a recognized educational credential at an eligible school (see the SFA Handbook *Institutional Eligibility and Participation* for more on institutional eligibility).

If the student completes a verification worksheet, no further documentation for this item is required. However, instead of the worksheet, the school may accept a statement signed by the student (and at least one of the student's parents, for dependent students). The statement should include the names and ages of those enrolled and the names of the schools they plan to attend. If the school still has reason to doubt the enrollment information reported, it should require the student to obtain documentation from the other students

Household Size Documentation Cite

34 CFR 668.57(b)

Members of a Household

Generally, the following people can be included in household size: the student, the student's spouse, the student's parent(s) (for a dependent student), children of the head of the household (either the student or the student's parents) who are supported by the head of the household, and anyone else who lives in the household and is supported by the head of the household. For a detailed discussion, see Chapter 6 of this publication.

Household Size Exception Cites

34 CFR 668.56(b)(5), (6), (7)

Number in College Documentation Cite

34 CFR 668.57(c)

and schools listed. (If a student in question hasn't yet registered, documentation from the school may not be available.)

Note that the statement to verify the number enrolled in a postsecondary education institution may be combined with the household size statement.

When verifying number enrolled in college is not required
As with household size, the school doesn't have to verify the number enrolled in college in any of the following instances:

- The student's valid federal output document is received within 90 days of the date the application was signed.
- The reported number enrolled is one (the student only).
- The family members the student lists are enrolled at least half time at the school, and the school has confirmed their enrollment through its own records.

AGI and Income Tax

Most often the school can verify AGI and U.S. Income Tax Paid by using a copy of the signed U.S. income tax return. U.S. taxfilers can file their taxes electronically (through e-file), over the telephone (through TeleFile), or using traditional paper tax forms. As explained later in this section, the tax documents needed for verification may vary depending on the filing method used by the student, spouse, or parents. All documentation must contain the required signatures (or stamp or other official validation) and must contain all data necessary for verification. If all necessary data are not present, the student must provide additional documentation, as described in this section.

To verify AGI and taxes paid, the school must first obtain from everyone whose financial data was reported on the FAFSA such tax returns, if any, they filed. The school must check the tax returns for anyone whose financial data was reported on the FAFSA: the student, the student's spouse, or the student's parents. Each person reported on the FAFSA which tax return they filed or that they were not required to file a tax return at all. With the new 1999-2000 application, students are no longer asked to report filing a 1040EZ or 1040A if they were merely eligible to file such a form. Therefore, the type of form reported on the FAFSA should now match what the student and his or her parents actually filed.

The AGI figures reported on the FAFSA should always match the AGI figures that appear on the student's tax return, unless the FAFSA amount has been adjusted from a joint return due to divorce, separation, or professional judgment (see "Using a joint return to figure individual AGI and taxes paid," page 197, and Chapter 5). If the figures don't match, a correction may be needed, as discussed in Chapter 9 of this publication. For more information on how specific types and special categories of income should be reported on the FAFSA, see Chapter 6, "Income and Assets," page 159.

Number in College Exception Cites
34 CFR 668.56(a)(4), (b), (d)

AGI and Income Tax Documentation Cites
34 CFR 668.57(a)

Other Tax Forms
The following tax forms are considered equivalent to a U.S. Form 1040A and 1040EZ: the income tax returns required by the tax code of the Commonwealth of Puerto Rico, Guam, American Samoa, the Virgin Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau. Information from these tax returns would be reported on the FAFSA in the same manner as U.S. tax information, and copies of these forms can be used for verification in the same way as U.S. tax forms. Amounts are already reported in U.S. dollars and the school should look at tax return line items that are comparable to the U.S. line items for verification.

Tax Return FAFSA Questions
For students, the tax return questions are 36 and 39 on the FAFSA. For parents, the tax return questions are 65 and 68.

Line Items

	1040 and 1040PC	*1040A*	*1040EZ*
AGI	33	18	4
Income Tax Paid	49	32	10
Deductible IRA/Keogh	23 and 29	15	
Earned Income Credit	59a	37a	8a
Tax-Exempt Interest Income	8b	8b	
Untaxed Portions of IRAs and Pensions (excludes rollovers)	15a minus 15b and 16a minus 16b	10a minus 10b and 11a minus 11b	

The line item chart above shows the tax form line items for the most commonly reported items. This chart is a reference only; it is not an inclusive list of all the items the school must check on a tax return.

Acceptable copies

For verification purposes, the school can accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy. The school can also accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer's signature.

Instead of a return the filer has signed, the school may also accept a paper return the tax preparer has signed or officially stamped. (Documentation from electronic returns must be signed by the filer, as explained in the following section.) In some cases, the school can waive the requirement for spouse information and signatures (see "Exclusions from Verification").

Special situations

There are certain situations, such as when the student files taxes electronically, or earned foreign income, when the school may need to do something other than examine a 1040, 1040A, or 1040EZ form.

Electronic filing (e-file)

The IRS *e-file* program comprises several electronic filing methods. For example, the taxfiler can go to an *e-file* provider who will send the return to the IRS, or use taxfiling software on a home computer. The filer should always receive a paper copyof the return in some format. Software used on a home computer may produce a 1040PC, or may allow the taxfiler to print out a standard 1040, 1040A, or 1040EZ that contains the information that was filed electronically. Or the *e-file* provider might print out a copy of

Nonfiler Documentation Cite
34 CFR 668.57(a)(4)(i)

the return using its own format. Any of these paper copies of the return are acceptable documentation for verification purposes, as long as they are signed by at least one of the taxfilers. (Note that when an electronic tax return is filed, the filer also submits IRS Form 8453. Form 8453 doesn't have enough information for verification purposes.)

Returns like the 1040PC don't contain every line item; rather, they shows only the data the taxfiler provided. For example, if Item 8a, "Taxable interest income," does not appear on such a return, that means the student reported no taxable interest income.

TeleFile

TeleFile (formerly called 1040TEL) allows 1040EZ filers to file a tax return over the phone. Filers complete a TeleFile Tax Record, call an IRS number, and enter the information over the telephone. The TeleFile Tax Record is acceptable documentation for verification purposes, provided it contains the filer's six-digit IRS confirmation number in Line M and is signed by the filer. (There's no signature line; have the filer sign at the bottom.)

Nonfilers

An AGI figure won't be available for individuals who aren't required to file a tax return. Such a person would instead report on the FAFSA income earned from work, which includes any income reported on the individual's forms W-2 *plus* any other earnings from work not reported on those forms. (Even if no taxes were paid on this income earned from work, it **should not** be reported as untaxed income on the FAFSA.)

A properly completed verification worksheet sufficiently documents income earned from work. No further documentation is required. If the student doesn't complete a verification worksheet, the school must require from each nonfiler a **signed statement** certifying his or her nonfiler status and listing the sources and amounts of income. (The school can also accept copies of the W-2 forms.)

The Department doesn't require financial aid professionals to have special knowledge or expertise regarding the U.S. tax code. If a person whose data was required on the FAFSA submits a signed statement claiming non-taxfiler status, and the school has reason to believe that person would have been required to file a U.S. tax return, this constitutes conflicting information and must be resolved. (For more information on conflicting information, see the Introduction.) For example, in such a case, the school might require a letter from the IRS, a copy of the applicable tax provision, or other documentation supporting the individual's claim to nonfiler status. Remember, conflicting information **must** be resolved before the school can disburse federal student aid.

Filing extensions

If any of the persons required to report information on the FAFSA will file but hadn't filed a tax return at the time of application, they would have used an estimated AGI on the FAFSA. At the time of verification, the necessary tax return(s) should have been filed and can be used for verification. If a return hasn't been filed by then and a filing extension was granted by the IRS, the school may accept the following alternative documentation:

- copies of the relevant forms W-2, and
- one of the following items as proof that the IRS has granted a filing extension:
  - Δ a copy of IRS Form 4868—*Application for Automatic Extension of Time to File U.S. Individual Income Tax Return* (automatically grants the taxpayer a four-month extension beyond the April 15 deadline), or
  - Δ a copy of the IRS approval of an extension beyond the automatic four-month extension.

In addition to supplying the above documentation, the student must submit a copy of the tax returns when filed. When the school receives the completed tax returns, it must use the tax returns to re-verify the required data. A student who fails to submit a copy of the filed tax return or alternative documents before the documentation deadlines is ineligible to receive federal student aid and is required to repay any aid disbursed. Regardless of whether the student repays the aid, the school is liable for the interim disbursement (see "Interim Disbursements," page 200).

Extension Documentation Cite
34 CFR 668.57(a)(4)(ii), (a)(5)

Fiscal year returns

For a fiscal year tax return (as opposed to a return for the calendar year), the student should report the AGI and U.S. Income Tax Paid from the fiscal year tax return that includes the greater number of months in the base year (see Chapter 6 for an example). Accordingly, the school should use the tax return from that fiscal year for verification purposes.

Nonresident filers

1040NR is a special return filed by certain nonresidents, mostly individuals holding temporary visas (such as an F-1 or H-1). Such persons are neither permanent residents nor U.S. citizens. The 1040NR is acceptable documentation for verification purposes.

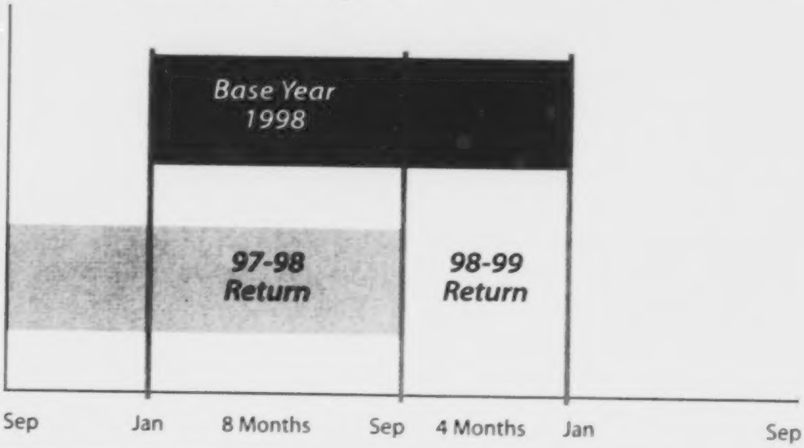
Foreign income

If a U.S. taxfiler earns foreign income, part of that income can sometimes be excluded from taxable income. The excluded portion should be reported as "untaxed income" on the FAFSA, while the remainder is part of the AGI. (The amount of foreign income that was excluded should be verified using IRS Form 2555 or 2555EZ, as explained under "Verifying foreign income excluded from U.S. taxation," page 199.)

Substitute for Tax Return Cite
34 CFR 668.57(a)(2)

Fiscal Year Example

The fiscal tax return covers the period from September 1 to August 31. Because the larger portion of the base year (1998) is covered by the 97-98 fiscal return, that return should be used for verification.



If a foreign taxfiler earned foreign income and paid taxes to a central foreign government, the income and taxes paid should be treated the same as U.S. income and taxes paid. Information from the foreign tax return would be reported on the FAFSA and for verification purposes, the foreign return would be considered equivalent to an IRS Form 1040.

If the student (or the student's parents) earned foreign income but did not pay any taxes on that income, it should be reported as untaxed income.

In all cases involving foreign income, the value of the foreign income and taxes should be reported in U.S. dollars, using the exchange rate at the time of application.

If a tax return isn't available

If copies of the necessary tax returns are not available, the student must instead submit a copy of any IRS form that lists tax account information. The IRS has a number of such forms, including IRS Letter 1722 and the RTFTP. The Department doesn't provide a comprehensive list of acceptable IRS forms. Any form that lists tax account information and provides the information needed for verification is acceptable. The form must also be signed by the student (and a parent, if the student is dependent), unless the IRS sent the form directly to the school.

IRS Letter 1722

The school may accept a copy of IRS Letter 1722 signed by the appropriate IRS regional official. (Stamped signatures are acceptable.) IRS Letter 1722 can be obtained at local IRS district offices (**not** at regional service centers). This document might not provide as much information about the student's financial status as does the tax return.

For this reason, the school may need to request supplemental documentation to complete verification.

RTFTP and other tax account summaries

In places where IRS Letter 1722 is not available, the school may accept the RTFTP, which is a computerized summary of tax return information provided by IRS Regional Service Centers. Some IRS regions may provide other tax account summaries. Again, as long as the summary has the information needed for verification, it's acceptable. The RTFTP or other tax account summary **must be signed** by the student (and at least one parent, if the student is dependent), unless it was sent directly from the IRS to the school (as requested by the student, using Form 4506).

Using a joint return to figure individual AGI and taxes paid

If the filer of a joint return has become widowed, divorced, or separated since filing the return, it may be necessary for verification purposes to determine the individual's income and taxes paid using the joint return and the relevant IRS Forms W-2. (If a filer is self-employed or if a W-2 is not available, the school may accept a signed statement from the filer that certifies the base year AGI and U.S. taxes paid.)

Starting with the income figures from the individual's forms W-2, add the individual's income that you have extracted from the joint return. Any interest or business income earned on joint accounts or investments should be assessed at 50%. (The same procedure should be used to divide business or farm losses.) Also, if the AGI listed on the joint return was adjusted ("Adjustment to Income"), you should reduce the individual's AGI by the portion of the adjustment that applies solely to him or her. For example, if an adjustment was made for moving expenses (which applies to the couple jointly), only 50% of the adjustment amount can be applied against the individual's income. An AGI figure can be calculated for the individual filer, using a joint return; a signed statement from the filer, certifying that the data from the joint return were accurately assessed, is sufficient documentation for this method.

Use one of the following methods to figure the individual's taxes paid:

- **Tax Table (preferred method).** Using the IRS Tax Table or Tax Rate Schedule for the appropriate year, calculate the amount of tax that would have been paid if a separate return had been filed. Use the deduction and number of exemptions the individual could have claimed if he or she had filed a separate return. (If itemized deductions were taken, count only the portion of those deductions that could have been claimed on a separate tax return.)

- **Proportional Distribution.** Determine what percentage of the joint AGI was attributable to the individual and then assess the joint tax paid by that same percentage.

No Documents from IRS

If the IRS can't provide a copy of the return or any form with tax account information, the school can accept a copy of the W-2 for everyone whose income is listed on the FAFSA. If a filer is self-employed or if a W-2 is otherwise unavailable, the school can accept a signed statement from the filer certifying that his or her income and other appropriate information is correct.

Calculating Individual AGI from Joint Return Example

Eddy's application is selected for verification. He and his wife filed a joint return for 1998, and have since separated. The AGI on Eddy's FAFSA matches the AGI on the 1998 tax return, which means it's wrong, because it includes his wife's income. Eddy's W-2s show that his income for 1998 was $12,500, while the AGI on the tax return is $33,000. In addition to the income earned from work, the tax return also shows $100 in interest income. Also, Eddy received a scholarship, and reported $400 of the scholarship as taxable income. The FAA adds $50 of the interest income to Eddy's income (because it was interest on a joint savings account), and includes all of the taxable scholarship in his income. Therefore, the FAA determines that Eddy's income is $12,950, and submits a correction through EDE.

Calculating Individual Taxes Paid from Joint Return Example

The FAA has determined that Eddy's part of the $33,000 AGI he and his wife reported is $12,950. Eddy and his wife claimed five exemptions on their tax return (themselves, two children, and Eddy's nephew). Eddy's wife has custody of the children, and will claim them as her dependents when she files her tax return for 1999. Eddy's nephew still lives with him. Therefore, Eddy would have had two exemptions (himself and his nephew), totaling $5,400. In the new situation, Eddy's filing status is "head of household" instead of "married." Therefore, his standard deduction is $6,250 (instead of the $7,100 for married filers). Eddy's income of $12,950 minus the $5,400 for exemptions and the $6,250 standard deduction results in $1,300 in taxable income. The FAA uses the tax table to determine how much tax Eddy would have paid on this amount, taking into account any applicable credits reported on the original return. With a taxable income of $1,300, the amount of tax paid from the tax schedule would be $197.

To use the proportional distribution method instead, the FAA figures out what percentage of the joint AGI Eddy's income represents. The percentage is 39% (12,950 divided by 33,000 is .3924) The FAA then multiplies the income tax paid as reported on the tax return ($1,864 for this example) by this percentage. Therefore, Eddy's income tax paid would be $727 (.39 x $1,864).

Untaxed Income and Benefits

The term "untaxed income" means any income excluded from federal income taxation under the IRS code. For an application selected for verification, the school must verify up to six specific types of untaxed income and benefits:

- Social Security benefits,
- child support,
- IRA/Keogh deductions,
- foreign income exclusion,
- earned income credit, and
- interest on tax-free bonds.

Except for Social Security benefits and child support, the required items can be verified using the tax return or alternative tax documents.[1] In addition to these types of untaxed income and benefits, the school must verify all other untaxed income reported on the U.S. individual income tax return (excluding schedules). Chapter 6 provides a complete discussion of untaxed income and benefits that must be reported on the FAFSA.

The school isn't required to verify any untaxed income and benefits received from a federal, state, or local government agency on the basis of a financial need assessment. Further, certain types of income are considered "in-kind" income and should not be reported on the FAFSA and do not have to be verified.

Untaxed Income and Benefits Documentation Cites

34 CFR 668.57(d)

Examples of In-kind Income

- *Food Stamp Program*
- *Food Distribution Program*
- *Women, Infants, and Children Program (WIC)*
- *National School Lunch and School Breakfast programs*
- *Commodity Supplemental Food Program (CSFP)*
- *Special Milk Program for Children*
- *Daycare provided by the Social Services Block Grant Programs (if the recipient receives* ***reimbursement*** *for childcare expenses, that amount is reported as income)*
- *Rollover Pensions*
- *JTPA Benefits*
- *Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act*

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[1] Nonfilers should submit a signed statement, as mentioned previously, that certifies their nonfiler status and lists the amounts and specific sources (by name) of untaxed income and benefits.

Verifying untaxed Social Security benefits

The school isn't required to verify Social Security benefits **unless** it has reason to believe that benefits were received and either were not reported or were reported incorrectly. If the school believes verification is necessary, the following documentation is acceptable:

- documentation from the Social Security Administration showing the total amount of benefits received by the student, the student's spouse, or a dependent student's parents, or

- a statement signed by the student (and spouse or parent) certifying that the amount of Social Security benefits reported on the application is correct.

Verifying child support received

The school must verify child support if the student, student's spouse, or student's parents report receiving it, or if the school has reason to believe it was received. Child support doesn't have to be verified if the amount reported is the same amount that was verified in the previous year. A completed verification worksheet is sufficient to verify child support received. Otherwise, the school must require a statement confirming the amount of child support received for all children in the household. The student (and one parent, if the student is dependent) must sign this statement. If child support is paid through a government agency, a statement from that agency would also be acceptable. If the school has reason to doubt the statement provided, it should request at least one of the following items:

- a copy of the divorce decree or separation agreement showing the amount of child support to be provided,

- a signed statement from the parent who provided the support showing the amount of child support provided, or

- copies of the canceled checks or money order receipts.

Verifying deductions for IRA and Keogh plans

Deductible payments to IRA and Keogh plans can be verified using the tax return. The deducted amounts are reported on lines 23 and 29 of IRS Form 1040, or line 15 of IRS Form 1040A.

Verifying interest on tax-free bonds

Interest on tax-free bonds can be verified using the tax return. Refer to line 8b of IRS Form 1040 or to line 8b of IRS Form 1040A.

Verifying foreign income excluded from U.S. taxation

Under the IRS code, certain U.S. citizens and residents living in foreign countries are allowed to deduct some excessive foreign living expenses or to exclude a limited amount of income received for personal services rendered abroad. Though deducted for tax purposes, this amount is considered untaxed income for federal student aid purposes. It should be reported on the FAFSA, and the school must verify it. Excluded foreign income can be verified by using

Social Security Benefits Documentation Cites

34 CFR 668.57(d)(2)

Tip for Verifying Social Security Benefits

Be sure the student reports the total amount (not the monthly amount) of benefits received in the base year—including Supplemental Security Income and benefits received on behalf of dependent children. Also, be sure the benefits were not included in the AGI. Lastly, if the Social Security statement shows an amount deducted for Medicare, make sure that amount is included in the total benefits reported.

Child Support Documentation Cites

34 CFR 668.57(d)(3)

IRS Forms 2555 (line 43) or 2555EZ (line 18). Note that the final total for Form 2555 shouldn't be reported as untaxed income, because it contains other exclusions.

Verifying earned income credit (EIC)

Earned income credit is available to certain eligible workers and must be reported on the FAFSA and verified. The amount can be verified from line 59a of the 1040, line 37a of the 1040A, or line 8a of the 1040EZ. Note that if parents file a joint tax return and qualify for EIC but then separate or divorce before the student files the FAFSA, the parent with whom the student lived most in the last 12 months would determine his or her portion of the EIC by using the tax table or proportional distribution calculations (see "Using a joint return to figure individual AGI and taxes paid," page 197).

COMPLETING THE PROCESS

If a student's application is selected for verification, he or she must complete the verification process or forfeit federal student aid eligibility. The school has the authority to withhold disbursement of any federal student aid funds until the student completes the required verification. Such a policy ensures that a student's application information and eligibility determination are absolutely correct before any funds are disbursed. Adopting this policy substantially reduces the incidence of overpayments. However, the school can also make an interim disbursement before verification is complete.

Interim Disbursements

As long as the school has no reason to believe the application information is inaccurate, it can make an interim disbursement before verification is complete. If the school has reason to believe the student's application may be inaccurate, it can't make any interim disbursements. The interim disbursement limitations as they apply to each program are listed below. The school is liable for an interim disbursement if verification shows that the student received an overpayment, or if the student fails to complete verification.

The Federal Pell Grant, Federal Perkins Loan, and FSEOG Programs

The school can make one disbursement from each of these programs, for the student's first payment period. Note that if the school makes an interim Pell disbursement, it reports the payment to the Department with a "W" (Without Documentation) verification status code. (See "Verification status codes," page 202.)

The Federal Work-Study (FWS) Program

Before completing verification, the school can employ a student under FWS for up to 60 *consecutive* days after he or she enrolled (or in summer employment for up to 60 days), provided the school has no conflicting documentation on the student. After 60 days, if verification has not been completed, the school can't employ the student under FWS any more. If the school later discovers that an overaward exists, it should attempt to adjust the student's other aid. Otherwise, it must

Interim Disbursements Cite
34 CFR 668.58

Pell, Perkins, FSEOG Interim Disbursement Example

Steven's application is selected for verification. He's attending Brust Conservatory, which chooses to make interim disbursements. Steven's eligible for a Pell, and Brust also awards him a Perkins Loan. He isn't eligible for an FSEOG. Steven has already made some corrections because Brust discovered errors in his application, but he hasn't submitted all the verification documentation yet. Brust doesn't want to pay Steven until it receives his corrected output document. As long as Brust makes the payment before the first payment period ends, it can make an interim disbursement before Steven turns in all his verification paperwork. Otherwise, Brust will have to wait until Steven completes verification to make any disbursements.

reimburse the FWS Program from school funds. Except in the case of proven student fraud, a student can't be required to repay FWS wages earned. (See the Campus-Based Programs Reference.)

The Direct Loan and FFEL Programs

If the school has no conflicting documentation, it can originate a Direct Subsidized Loan or certify a Federal Stafford Loan application for a student who hasn't completed the verification process. However, it can't disburse a Direct Subsidized Loan or deliver Federal Stafford Loan proceeds to the borrower.

If the school originates a Direct Subsidized Loan or certifies a Federal Stafford Loan application before verification is completed, it may later discover that the loan amount exceeds the student's need. See Chapter 10 of this publication for more on handling loan overawards.

There are limits on how long the school can hold loan proceeds before either disbursing them to the student or returning them to the lender. Generally, as of July 1, 1999 the limit is 3 business days for funds received by EFT or master check, and 30 days for individual checks (see the Direct Loan and FFEL Programs Reference for a complete discussion). If the school has received the funds from the lender, and the student doesn't complete verification within these time limits, the school must return those loan proceeds to the lender.

After Documentation is Complete

When the school has obtained all necessary verification documents from the student, it should compare that documentation to the information originally reported on the application. If the verification process shows that all the student's information is correct, and there are no outstanding issues or conflicting information, the school may award aid and disburse aid for which the student is eligible.

If verification revealed errors or inconsistencies, the student may have to make corrections. See Chapter 9 of this publication for information on the correction process. Generally, the student must correct data that was incorrect at the time the application was completed, unless it falls within the verification tolerance. The student can't update information that was correct at the time of application, except in very specific circumstances discussed in Chapter 9.

Verification tolerance

Verification can sometimes uncover minor errors that won't significantly affect the student's eligibility. Therefore, the Department has a tolerance option for verification, which allows schools to disregard these minor errors.

There is no tolerance for errors in nondollar items. If the original application has errors in any nondollar items, such as household size, the school can't use the tolerance option, and the student must make a correction. However, if there are only dollar amount errors, and all dollar errors are within the tolerance limit, the school may award the

Disbursement of Unsubsidized Loans without Verification

As mentioned previously, verification isn't required for unsubsidized loans. Therefore, schools can originate, certify, and disburse unsubsidized loans regardless of a student's verification status.

Holding Loan Proceeds Cite

34 CFR 668.167(b)

Items that Must be Updated

If the student is selected for verification, then household size and number in college must be updated to be correct at the time of verification. Dependency status must be updated if it changes during the award year (see Chapter 9).

Tolerance Example

Emma originally reported an AGI of $2,500, $300 in untaxed income, and $300 U.S. income tax paid. Verification shows that her AGI was actually $3,000, and she paid $400 in U.S. income tax.

Original: $2,500 (AGI) + $300 (untaxed income) - $300 (taxes paid) = $2,500 (uncorrected total)

Corrected: $3,000 (AGI) + $300 (untaxed income) - $400 (taxes paid) = $2,900 (corrected total)

Net Difference: $400 ($2,900-$2,500)

Because the net difference is within tolerance, the school can award Emma's aid based on what she originally reported, without requiring corrections or recalculation of the EFC.

student's aid based on the application data as is, without submitting corrections or recalculating the EFC. Note that if the school doesn't want to figure out whether the errors fall within the tolerance, it can simply have the student submit corrections for reprocessing.

The tolerance limit is $400; the tolerance option takes into account certain dollar items, and if the net difference between the original and correct data is more than $400, the information must be corrected. To calculate the net difference for purposes of the tolerance, first add the original (uncorrected) AGI[10] and untaxed income amounts. From that amount, subtract the original U.S. income tax paid to get the uncorrected total. Then, add the correct AGI and untaxed income amounts and subtract from that total the correct U.S. income tax paid to get the corrected total. If the difference between the uncorrected total and the corrected total is $400 or less (and there are only dollar amount errors), the errors are within tolerance; recalculation is not required.

Verification status codes

When a school disburses a Pell award, it must report the student's verification status when it reports the payment. The codes for reporting verification status are discussed in detail below. Note that this reporting requirement applies even if the student's application was not selected for verification. (See the Pell Reference for more information.)

N—not selected by the CPS

The CPS didn't select the student, and the school didn't verify any items. (If verification wasn't required, but the school verified some of the student's information anyway, the school wouldn't use the "N" code. Instead, it would use one of the other codes, as appropriate.)

A—accurate

Verification was completed, and the record being used for the award is accurate.

W—without documentation

Verification is required, but the student hasn't completed the process. A first disbursement has been made. Verification *must* be completed before the next disbursement can be made, and the school must enter a different verification code on that student's disbursement record to show the verification status under which the student was finally paid.

If a student's disbursement record still shows a "W" code after the Pell verification deadline has passed, that student's award eligibility will be dropped, or "zeroed out," from the Pell payment system. The school will not receive Pell funds for the student and must repay any funds already disbursed in accordance with the

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[10] If the student, spouse, or parents didn't file and aren't required to file a federal tax return, the school can use income earned from work instead of an AGI.

Failure to Submit Documentation Cite

34 CFR 668.60

overpayment procedures discussed in Chapter 3 of this publication.

T—tolerance

Some data items were incorrect. However, the discrepancy was within the tolerance, and the student was paid based on the uncorrected data. This code is also used for students who are exempt from verification under one of the allowable exclusions. (See "Verification Exclusions.")

C—calculated

The application information was verified and found to be incorrect. The school recalculated the EFC and determined that the recalculated award would be the same or higher than the original award. The school paid based on the original EFC, without requiring the student's application information to be corrected and reprocessed. If the school's calculation is wrong, it will be liable for any overpayment. (To pay the higher award according to the recalculated EFC, the application information must be corrected and reprocessed.)

R—reprocessed

The application information was verified and found to be incorrect; the information was corrected and reprocessed for that reason. The school paid the student based on the reprocessed application information. If a student makes additional errors in correcting and the reprocessed output document is still not valid for payment, the student must make corrections again, and the information must again be reprocessed. The "R" code still applies. (If the additional errors fall within tolerance, the student may be paid without the application information being reprocessed again. In this case, use the "T" code.)The school should also use an "R" code if the student voluntarily corrected the application and had it reprocessed without being required to. An "R" code applies only to application information that has been corrected and reprocessed. The "R" code can't be used on a student's original application (also called an 01 transaction).

S—selected, not verified

The application was selected for verification but was not verified either because the school has already verified at least 30% of its total applications for federal student assistance or is participating in the QA Program.

Failure to Submit Documentation

A Pell applicant selected for verification must complete the process within deadlines set by the Department. Every year, the Department publishes a deadline notice in the *Federal Register*. At the time this publication went to print, the deadline notice for 1999-2000 had not been published; however, we expect the 1999-2000 deadline to be August 31, 2000 or no later than 90 days after the last day of enrollment, whichever is earlier. Campus-based, Direct Subsidized

Loan, and Federal Stafford Loan applicants must complete verification within the deadlines the school establishes.

Pell Failure to Complete Verification Cite
34 CFR 668.60(c)

Campus-Based, Direct Loan, FFEL Failure to Complete Verification Cite
34 CFR 668.60(b)

Defining "completed" verification

For the Federal Pell Grant Program, the student has completed verification when he or she has corrected the data or has shown, as required, that the application data are correct. In addition to all verifying documentation, the school must also have on file the final and valid federal output document, showing the official EFC.

For the campus-based, Direct Subsidized Loan, and Federal Stafford Loan programs, the student has completed verification when he or she has submitted all requested documentation to the school. The school must also have on file an output document that shows the student's application data were processed through the CPS at least once. (The output document need not be final or signed by the student).

The consequences of failing to complete verification

Under the Federal Pell Grant Program, if a student does not complete verification by the deadline, he or she forfeits the Pell for the award year; the school must repay to the Department any funds already disbursed.

Under the campus-based, Direct Loan, and FFEL programs, if a student fails to provide the required documentation by the deadline, the school must not

- disburse additional FSEOG or Federal Perkins Loan funds to the student (funds already disbursed must be repaid by the school),
- continue the student's employment in an FWS job,
- originate a Direct Subsidized Loan or certify a Federal Stafford Loan application for the student (the school may have done so before verification was completed, but can't do so after the verification deadline), or
- disburse Direct Subsidized Loan proceeds or deliver Federal Stafford Loan proceeds to the student.

Corrections, Updates, and Adjustments

CHAPTER 9

If the student's original application was wrong, the student may have to make corrections, and in some cases the student must update information that has changed. The student or school may also want to make other changes. In this chapter, we discuss the various types of changes the student and school can make to the application information and how changes are made.

TYPES OF CHANGES

There are a number of types of changes schools and students can make to the application information. The student or school can correct errors, update information, and add or remove schools. The FAA can also make adjustments, using his or her professional judgment.

When a student files an application, he or she provides a "snapshot" of the family's financial situation as of the date the application was signed. If the information on the output document doesn't accurately show the situation as of the signature date, then corrections may be needed. If the output document has information that was correct when the application was signed, but the student's situation has changed, the student may, in certain circumstances, update that information. If the information is accurate, but the FAA believes it should be modified to take into account special circumstances, the FAA may choose to adjust the information.

Correcting Errors

Errors may occur either because the student entered the wrong information or because there was a data entry error. Generally, the school must have correct data before it can pay the student. In some cases the school can take the changes into account without sending in a correction or can pay the student without corrections. However, even if the student's application is otherwise accurate, corrections to the SSN must **always** be submitted for processing for data match purposes. A student might also need to submit corrections if there were problems with some of the other data matches, such as the citizenship match. Note that for students selected for verification, there are additional situations where corrections aren't required (see Chapter 8 of this publication).

To award aid from the Federal Pell Grant Program, corrections have to be reported to the processor for recalculation of the EFC, unless the school can use the original (uncorrected) EFC. For the federal campus-based and loan programs, the school can recalculate

Correction if Misreported as Graduate

As mentioned in Chapter 6 of this publication, any student who reports on the FAFSA that he or she is a graduate student can't receive Pell funds. The Pell payment system won't allow the payment to be made. Therefore, a student who incorrectly reported that he or she is a graduate student must correct that information, even if there are no errors that affect the EFC.

Error not Affecting EFC Examples

Stanislaw reported $1,000 for cash, savings, and checking accounts, and also reported $1,000 for the net worth of investments. He reported no other assets. He actually should have reported $2,000 for the net worth of investments. However, because his asset protection allowance is $4,800, making the correction won't change his EFC at all. Therefore, he can receive aid from any of the programs without submitting a correction, based on the data he originally reported.

Eric reported an AGI of $20,000, but forgot to report untaxed income of $120. Eric's EFC was 846. The FAA at Edison College determines that making the correction would change Eric's EFC to 874. For an EFC of 846, the scheduled award is $2,275. It's also $2,275 for an EFC of 874, so Edison College can pay Eric's Pell without requiring him to make a correction. When Edison submits the origination record for Eric, it uses the original EFC of 846. (Edison will need to either recalculate or submit a correction for aid from the campus-based, Direct Loan, or FFEL programs; see "Correction decreases eligibility.")

the student's EFC without reporting corrections to the processor. However, if the school's recalculation is incorrect, the school will be liable for any resulting overpayments.

Error doesn't affect EFC

If the school recalculates and determines that the error won't affect the student's EFC, then it can pay the student based on the original data without requiring reprocessing. As mentioned above, however, the student must submit a correction if the SSN is wrong or if there were problems with the other data matches. The school doesn't have to pay the student without corrections; it can require the student to make the corrections and send them in if it chooses.

Federal Pell Grant Program

For the Federal Pell Grant Program, errors don't have to be corrected if they don't change the scheduled award regardless of whether they affect the EFC. When submitting payment information in such a case, the school must be sure to use the original (incorrect) EFC (see the Pell Reference).

Campus-Based, Direct Loan, and FFEL Programs

If the school recalculates and determines that the error doesn't affect the EFC, the school can award aid from the campus-based, Direct Loan, and FFEL Programs based on the original data, without reprocessing.

Correction increases eligibility

If the student would be eligible for more aid if the error is corrected, the school can either use the original, incorrect EFC and pay the lower amount or use the corrected, reprocessed EFC to pay the higher award.

Federal Pell Grant Program

If the scheduled award would increase, the school can still pay using the original, incorrect EFC. If it wishes to pay the student the increased amount, the data must be corrected and reprocessed. If the student's application was selected for verification (by either the CPS or the school), the school can make a first payment based on the original EFC, adjusting the second payment upon receipt of the reprocessed output document, or it can withhold payment until it receives the reprocessed EFC. If the student's application wasn't selected for verification, the school can't make a payment until it receives the reprocessed EFC.

Campus-Based, Direct Loan, and FFEL Programs

If correcting the error would increase the amount the student could receive, the school can either recalculate the EFC itself and pay the student based on its recalculation or it can require the student to submit a correction and use the new EFC from the CPS. Remember that the school will be liable for any overpayment if its recalculation is incorrect.

Correction decreases eligibility

If the student would be eligible for less aid if the error is corrected, the school can't use the incorrect EFC to award SFA aid.

Federal Pell Grant Program

If the scheduled award would decrease, the data must be corrected and reprocessed. The school can't make any Pell payments to the student until it receives the new output document.

Campus-Based, Direct Loan, and FFEL Programs

If correcting the error would decrease the amount the student could receive, the school must either recalculate the EFC itself and pay the student based on its recalculation, or require the student to submit a correction.

Updating

Generally, information that's correct as of the date the application was filed can't be changed. The student can't update income or asset information to reflect changes to his or her family's financial situation if those changes took place after the FAFSA was filed. For example, if the same student's family sold some stock after the student filed a FAFSA and spent the money on a nonreported asset such as a car, the student can't update her information to show a change in the family's assets. However, there are three application data items that must be updated in certain circumstances

- dependency status
- household size
- number in college.

Dependency status

A student must update his or her dependency status if it changes at any time during the award year (unless it changed because of a change in the student's marital status). Dependency status must be updated regardless of whether the student was selected for verification. For the Federal Pell Grant Program, the updated information has to be submitted for reprocessing. For the campus-based and loan programs, the school can recalculate the student's EFC based on the updated dependency status and use that recalculated EFC. The school is liable for any overpayment resulting from its incorrect recalculation of the EFC.

Once a school has originated a Direct Loan or certified a Federal Stafford Loan, the Direct Loan origination record or Federal Stafford Loan application can't be changed to reflect a change in dependency status. However, the school can use the updated status and recalculated EFC to originate or certify additional loans if the student qualifies.

Correction Increases Eligibility Example

Chris's EFC is 616. He correctly reported his household size of three, but incorrectly reported the number in college as one. The FAA at Benoit Institute determines that correcting the number in college to two would change Chris's EFC to 534. This change would increase his Pell scheduled award by $100. Benoit Institute can make Pell disbursements to Chris using the lower scheduled award, but can't use the higher amount until he sends in a correction and receives a new reprocessed output document. Benoit could also use the recalculated EFC for awarding under the campus-based, Direct Loan, or FFEL programs without any corrections being submitted.

Correction Decreases Eligibility Example

On the application, Chavo reported his $6,000 in income as taxes paid instead of income earned from work. Making the correction will increase Chavo's EFC, so his eligibility will be reduced. Because Chavo will still qualify for a Pell, the FAA at Sarven Technical Institute sends the correction to the CPS for recalculation. Chavo can't receive any Pell payments until Sarven receives the corrected ISIR. However, Sarven could recalculate his EFC and disburse campus-based aid, Direct Loans, or FFELs to Chavo before it receives the corrected data from the CPS.

Professional Judgment Cite
Sec. 479A

Household size and number in college

For students not selected for verification, household size or number in college **cannot** be updated. For students selected for verification, these items **must** be updated to be correct at the time of verification (unless the change is a result of a change in the student's marital status, in which case updating is not permitted).

Federal Pell Grant Program

If the scheduled award will either increase or remain the same, the student doesn't have to submit updated information to the processor. Instead, the school can disburse Pell funds to the student using the original EFC. However, if the school wants to give the student the increased grant amount, the updated information must be submitted to the processor. The school can withhold payment until it receives the new output document or it can make a first disbursement based on the original EFC, and then adjust the second payment after it has the new output document.

If the scheduled award will decrease, the updated information must be submitted to the processor. The school can't make any payments until it has the new output document with the updated information.

Campus-Based, Direct Loan, and FFEL Programs

The school can recalculate the student's EFC using the updated data and use that EFC to award campus-based, Direct Subsidized Loan, or Federal Stafford Loan funds. The school can also choose not to recalculate, and instead have the student submit the updated information for the CPS to recalculate the EFC. If the school recalculates the EFC itself, it is liable for any overpayment that results from an incorrect recalculation of the EFC.

Effect on previous disbursements

A school may have made a disbursement to a student before his or her dependency status changed, or may have made an interim disbursement to a student selected for verification (see Chapter 8 of this publication for information on interim disbursements). If the school made a disbursement to a student based on information that is updated later, the school must use the updated information to determine the correct award, and adjust either the prior disbursement or future disbursements so that the student receives the correct amount.

Professional Judgment

An FAA may use professional judgment, only on a case-by-case basis, to either increase or decrease one or more of the data elements used to calculate the EFC. The reason must be documented in the student's file, and it must relate to that student's special circumstances that differentiate the individual student (not to conditions that exist for a whole class of students). An FAA can also use professional judgment to adjust the student's cost of attendance. The FAA must resolve any inconsistent or conflicting information shown on the output document before making any adjustments. An FAA's decision regarding adjustments is final and cannot be appealed to the Department.

Adjustment Example

Kitty's mother had income earned from work of $25,000 in 1998, but is no longer employed. The FAA at Bennet College decides to adjust the AGI reported for Kitty's parents to take into account their reduced income. The FAA also reduces the income earned from work for Kitty's mother to zero.

Because the purpose of such adjustments is to allow FAAs to accommodate unusual circumstances, the Department does not provide detailed information on when the FAA may make adjustments. However, effective October 1, 1998, Reauthorization added some examples of special circumstances schools might consider. Examples of special circumstances listed in the law include elementary or secondary school tuition, medical or dental expenses not covered by insurance, unusually high child care costs, recent unemployment of a family member, or other changes in the family's income or assets. Use of professional judgment is neither limited to the situations mentioned nor required in those situations.

Another situation where a school might want to consider the use of professional judgment involves Roth IRAs. When someone converts a regular IRA into a Roth IRA (which is done by transferring funds), the amount converted has to be reported as taxable income on the tax return. Therefore, the income reported on the FAFSA will be higher than it would without the Roth conversion, even though the family doesn't actually have additional income or assets available. Schools can use professional judgment to reduce the income and taxes paid to the amount that would have been reported if there was no Roth conversion, if it thinks the adjustment is warranted for a particular student. Just like the specific special circumstances listed in the law, the school isn't **required** to make a professional judgement adjustment in this situation.

The law doesn't allow the school to modify either the formula or the tables used in the EFC calculation; the school can only change the cost of attendance or the values of specific data items used in the calculation. In addition, an FAA can't adjust data elements or the cost of attendance solely because he or she believes the tables and formula are generally not adequate or appropriate. The data elements that are adjusted must relate to the student's special circumstances. For example, if a family member is ill, an FAA might modify the AGI to allow for lower earnings in the coming year or might adjust assets to indicate that family savings will be spent on medical expenses.

The FAA can't exercise professional judgment to waive general student eligibility requirements or to circumvent the intent of the law or regulations. The Department specifically prohibits the use of professional judgment to change FSEOG selection criteria. Nor can the FAA include post-enrollment activity expenses in the student's COA. (For example, professional licensing exam fees are not allowable costs.)

Occasionally aid administrators make decisions contrary to the professional judgment provision's intent. These **unreasonable** judgments have included, for example, the reduction of EFCs based on reoccurring costs such as vacation expenses, tithing expenses, and standard living expenses (related to utilities, credit card expenses, childrens' allowances, and the like). Aid administrators, whom the Department grants significant latitude in exercising professional judgment, are expected and required to make **"reasonable"** decisions that support the intent of the provision. The school is held accountable for all professional judgment decisions made, and that each decision must be fully documented.

IPA Percentage Example

In 1998, Allen had $2,000 in medical expenses that weren't covered by insurance. He's married and has two children, and he's the only member of his household in college, so his IPA is $18,850. Of this amount, $2,073.50 represents family expenditures for medical care. Because Allen's expenses are less than the amount for medical expenses already included in the IPA, the FAA at Sarven Technical Institute decides not to do a professional judgment adjustment for Allen.

In making adjustments for unusual expenses, an aid administrator should keep in mind that the income protection allowance is already included in the EFC calculation to account for modest living expenses. The administrator should consider whether the expense is already taken into account through the income protection allowance before making an adjustment. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA"). See Chapter 7 of this publication for tables listing income protection allowances.

If an FAA uses professional judgment to adjust a data element, he or she must use the resulting EFC consistently for all federal student aid awarded to that student. For example, if the FAA adjusts the EFC for purposes of awarding the student's Federal Pell Grant, that adjusted EFC must also be used to award **all** other federal student aid to that student.

HOW TO SUBMIT CHANGES

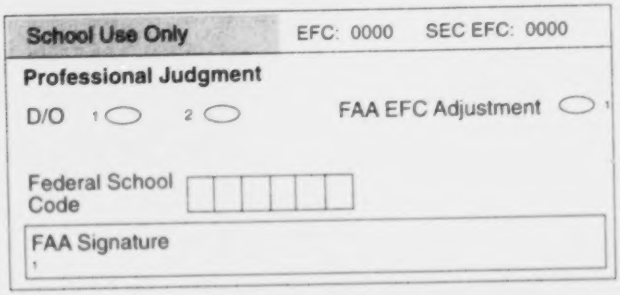
Corrections can be submitted electronically through EDE or on the SAR. In some special cases, such as adding a school or correcting data entry errors, the student can make changes by calling the Federal Student Aid Information Center (FSAIC).

EDE

Even if a school didn't transmit a student's application via EDE, the school can still make the corrections electronically if the student brings the corrected information to the school. If the school wasn't on the student's SAR or *SAR Information Acknowledgement*, it must have the student's DRN to get access to the student's data. Also, the school must add itself in the next available institution field; if all six institution fields have been used, the student must tell the school which of the original six should be replaced with the new school's name and Federal School Code.

If the student's corrections are made through EDE, the corrected data is processed by the CPS, and an ISIR will be returned to the school; the student will receive the one-page SAR Information Acknowledgement. The school must keep signed documentation for corrections submitted electronically; the school must collect documentation before sending data to the CPS (see Chapter 6 of this publication for more on signature requirements).

SAR School Use Only Box



School Use Only EFC: 0000 SEC EFC: 0000

Professional Judgment

D/O 1 ○ 2 ○ FAA EFC Adjustment ○

Federal School Code ☐☐☐☐☐☐

FAA Signature

SAR

If a student applied by mail, by using FAFSA Express, or by using FAFSA on the Web, the student may make corrections on Part 2 of the SAR and return it to the FAFSA processor at the address given at the end of Part 2. If the student applied electronically through a school and would like to make corrections to his or her information by mail, the student must request a duplicate copy of his or her SAR from the FSAIC at 1-319-337-5665. This is a toll call. The student must provide his or her name, SSN, and date of birth.

The "School Use Only" box

The School Use Only box on the SAR allows the FAA to tell the CPS when he or she has adjusted a data element or when he or she has changed a student's dependency status. There are four common scenarios:

- The FAA has the student correct a line item on the SAR. The FAA doesn't need to make any notation; the student corrects the SAR and mails it to the FAFSA processor.
- The FAA makes a professional judgment adjustment to one of the line items on the SAR. He or she must fill in the oval labeled "FAA EFC Adjustment" to let the CPS know that the change was an adjustment rather than a correction to a line item.
- The FAA corrects a data element on the SAR and adjusts a different data element. An FAA should always report a combination of changes as an adjustment. He or she should fill in the oval labeled "FAA EFC Adjustment."
- The FAA uses the SAR to change a student's dependency status. He or she should fill in the appropriate dependency override oval (see Chapter 6 of this publication for details).

Whenever an FAA is indicating changes in the School Use Only box, he or she must fill in the school's Federal School Code and sign his or her name.

Adding a School and Changing a Student's Address

A school that receives a SAR that it isn't listed on has to add its Federal School Code to the student's record. A student might also want to add schools after filing the FAFSA. There are several ways to add schools. A school can add itself electronically if the student gives the school his or her DRN from the SAR. The student can also correct the SAR and mail it in to add that school or can call the FSAIC's toll number (1-319-337-5665) to make the change. To make changes by phone, the student will need to provide his or her DRN. Finally, a student can also add schools by sending a signed, written request to the MDE FAFSA processor, or can use the form in Action Letter #3 (GEN 98-26).

The student can use any of these methods to change his or her address as well. Any other changes can only be made through EDE or on the SAR, except that there's an additional correction method for FAFSA processing errors.

Sending data to more than six schools

The FAFSA only allows a student to list six schools that will receive the application data. For a student who wants information sent to more than six schools, there are several ways to make sure all the schools can receive his or her data.

- The student can list six schools on the FAFSA, wait for the SAR, and then correct the SAR by replacing some or all of the original six schools with other schools. After the application is processed, the student can also send a letter to the CPS requesting changes in schools; in this case, all six schools from the original application will be replaced with the schools the student lists in the letter. Corrections made at the same time this is done or subsequently won't be sent to the schools that are replaced with new schools.

- The student can call the FSAIC (on the toll line, at 1-319-337-5665) to request changes to the schools (institution codes) to which the SAR is sent.. The student must receive his or her SAR before requesting these changes.

- If a school that isn't listed on the SAR participates in EDE, that school can use the student's DRN number (printed on the SAR) to get the student's data electronically. That school would then replace one of the schools listed in the original application.

The CPS will send data to only six schools at a time for one student. For example, if the student originally listed six schools on the application and then replaced all six with new schools by changing the SAR, only the second six schools would get data from this correction. If the student then made other corrections, only the second set of schools would get the corrected data.

FAFSA Processing Errors

If a student believes that the FAFSA processor incorrectly entered data from his or her application or from a submitted correction, the student can call the FSAIC and request a review of his file. An FSAIC counselor will look at an image of the student's form to determine whether the processor made an error. If so, the counselor can make the correction immediately. The correction will be transmitted to the processor and a corrected ISIR will be available within 72 hours. The schools the student listed on his or her application will receive a corrected ISIR, and the student will receive a corrected SAR in the mail within 10 days. The FSAIC, however, cannot change any data except data that the processor entered incorrectly.

Financial Need and Packaging

CHAPTER 10

Once the school has the necessary information from the Department, it determines the student's financial need and packages the student's aid. In this chapter, we discuss how financial need is determined, and some factors schools must keep in mind when packaging federal aid.

FINANCIAL NEED

A student must have financial need to receive all SFA funds except for unsubsidized loans under the Direct Loan and FFEL Programs. These loans include unsubsidized Federal Stafford Loans, Federal PLUS Loans, Direct Unsubsidized Loans, and Direct PLUS Loans. Unlike scholarship programs that may award funds based on academic merit or based on the student's field of study, SFA aid is administered based on the family's need for assistance.

Financial need is simply defined as the difference between the student's cost of attendance and the family's ability to pay these costs, the EFC. For programs other than the Federal Pell Grant Program, other aid the student receives, known as resources or estimated financial assistance, are also subtracted from the cost of attendance to determine financial need.

If the EFC is less than the cost of attendance (in other words, if the student's family cannot be expected to contribute the full costs faced), the student is considered to have financial need. In the case of eligibility for Pell, however, a maximum eligible EFC is determined annually. Although a student whose EFC exceeds the maximum may have financial need, he or she is not eligible for a Pell. For 1999-2000, the maximum EFC that a student could have to qualify for a Pell was 2925. As long as the EFC is less than the cost of attendance, the student will remain eligible for aid from other SFA programs, provided that he or she meets the other eligibility requirements of those programs.

Members of a Religious Order

The various program regulations specify that a member of a religious order is not considered to have financial need for purposes of those programs, if the religious order meets certain criteria. Members of any religious order, society, agency, community, or other organization that directs the students' courses of study or that provides the students with subsistence support aren't considered to have financial need. Therefore, the members of these religious orders can't

Religious Order Cite
34 CFR 674.9(c), 675.9(c), 676.9(c), 682.301(a)(2), 685.200(a)(2)(ii), 690.75(d)

Cost of Attendance Cite
Sec. 472

receive subsidized Direct Loans, subsidized FFELs, Pells, or campus-based aid. They are eligible, however, for unsubsidized FFELs and unsubsidized Direct Loans.

COST OF ATTENDANCE

The cost of attendance is an estimate of a student's education expenses for the period of enrollment. The total aid the student may receive from the SFA programs and other sources (when added to the student's EFC) can't exceed the student's cost. (However, note that the Federal PLUS, the Direct PLUS, the unsubsidized Federal Stafford, and the Direct Unsubsidized loan may be substituted for the EFC, as described later.)

The components of the cost of attendance are the same for all SFA programs, as specified in the law. However, in the case of programs of study or enrollment periods that are less than or greater than the school's academic year, the cost for purposes of loans and campus-based aid differs from the cost for the Federal Pell Grant Program. The Pell costs are always prorated to the costs for a full-time student for a full academic year, but the cost of attendance for the other programs is based on the student's actual costs for the period for which need is being analyzed. See the Pell Reference for more information on the Pell cost of attendance.

Components

A student's cost of attendance generally is the sum of the following:

- **The tuition and fees normally assessed for a student carrying the same academic workload**. This includes costs of rental or purchase of equipment, materials, or supplies required of all students in the same course of study;

- **An allowance for books, supplies, transportation, and miscellaneous personal expenses.** Effective October 1, 1998, as a result of Reauthorization, a reasonable allowance for the documented rental or purchase of a personal computer can be included as part of this allowance;

- **An allowance for room and board.** Previously, the law specified minimum allowances for students living with parents and students living off-campus but not with their parents; effective October 1, 1998, those minimum amounts have been removed. For students living on-campus, the allowance is the standard amount normally assessed most residents; for those living off-campus but not with their parents, the allowance must be based on reasonable expenses for room and board;

- **For a student with dependents, an allowance for costs expected to be incurred for dependent care**. This covers care during periods that include, but that are not limited to, class time, study time, field work, internships, and commuting time for the student. The amount of the allowance should be based on the number and age of such dependents and should not exceed reasonable cost in the community for the kind of care provided;

- **For study-abroad programs approved for credit by the student's home institution, reasonable costs associated with such study.**

- **For a disabled student, an allowance for expenses related to the student's disability**. These expenses include special services, personal assistance, transportation, equipment, and supplies. Expenses provided for by other agencies aren't included;

- **For students engaged in a work experience through a cooperative education program, an allowance for reasonable costs associated with such employment.** and

- **For students receiving SFA loans, the fees required to receive them (for example, the loan fee for a Direct Loan or the origination fee and insurance premium for a FFEL).** Schools may also include the fees required for nonfederal student loans (that is, nonfederal loans that must be considered resources for the student when packaging aid). In all cases, the school can either use the exact loan fees charged to the student or an average of fees charged to borrowers of the same type of loan at that school.

Exceptions to the Normal Cost of Attendance Allowances

Following are the exceptions to the normal cost of attendance allowances discussed above:

- For students who are enrolled less than half time, only the costs for tuition and fees and allowances for books and supplies, transportation (but not miscellaneous expenses), and dependent care expenses may be included as part of the cost of attendance.

- Generally, the cost of attendance for a correspondence study student is restricted to the costs for tuition and fees. However, if the student is fulfilling a required period of residential training, the cost of attendance can also include required books and supplies, an allowance for travel, and room-and-board costs specifically incurred. (As mentioned in Chapter 1 of this publication, a student isn't eligible to receive SFA aid for correspondence courses unless they are a part of an associate-, bachelor's-, or graduate-degree program and unless the school meets the criteria for the percentage of courses taught using this medium.)

- The cost of attendance for incarcerated students is limited to tuition and fees and required books and supplies. Remember that an incarcerated student is ineligible for SFA loans; if a student is incarcerated in a federal or state penal institution, he or she is ineligible for Pell (see Chapter 1 of this publication).

Disabled Student

A student is considered disabled if he or she is deaf, mentally retarded, hard of hearing, speech or language impaired, visually disabled, seriously emotionally disturbed, orthopedically impaired, autistic, has a traumatic brain injury, is otherwise health-impaired, or has specific learning disabilities that require special education and related services.

- Previously, the cost to rent or purchase equipment was excluded for students receiving instruction by telecommunications. However, effective October 1, 1998, there is no such restriction, and the cost of equipment can be included in the cost of attendance; the law specifies that there is no distinction made in the cost of attendance regarding the mode of instruction.

- The financial aid administrator has the authority to use professional judgment to adjust the cost of attendance for the SFA programs on a case-by-case basis to allow for special circumstances. Such adjustments must be documented in the student's file. (See "Professional Judgment" in Chapter 9 of this publication.)

Other Factors

The law specifies the components that are included in the cost of attendance, but the school must determine appropriate amounts. Also, if the student doesn't have some of the normal expenses, the school might decide not to include all the components.

Actual or average costs

The school could use the actual cost for each component for each student. However, the school isn't required to do so, and can instead use a cost the average student would pay. For example, for the tuition and fees component, the school can use the same amount for all full-time students, instead of figuring the actual tuition and fees for each individual student. The school can have different standard costs for different categories of students, such as a one cost of attendance for in-state students (who have lower tuition) and a higher cost of attendance for out-of-state students. If the student's enrolled in a program that has extra fees or costs, such as lab fees, the school can add those fees to the student's cost or can have a standard cost it uses for all students in that program. If the school establishes such standard categories, it has to apply the cost allowances uniformly to all students in that category.

COA for periods of other than 9 months

For the campus-based, Direct Loan, and FFEL programs, the cost of attendance for a student covers the period of actual enrollment. Therefore, if the student will be attending for more than 9 months, the school can use a higher cost of attendance that includes living expenses (such as room and board) for the longer period of time. If the student will be attending for less than 9 months, the school can use a lower cost of attendance. The school can choose to prorate the allowances it uses for 9 months, or can calculate the cost in any other reasonable way. However, for the Federal Pell Grant Program, the school must always use a cost of attendance for 9 months. If the school has a cost of attendance for a student that is for a period of other than 9 months, it must be prorated for Pell (see the Pell Reference).

Tuition and fees not paid by the student

In some cases, such as under JTPA programs, a student's tuition and fees are paid by another organization or are waived. The basic calculation of COA doesn't change. The only issue is whether the arrangement between the school and the student result in a tuition and fee charge to the student. If the student is charged for the tuition and fees, even if the charge is eventually paid by someone besides the student (e.g., a scholarship agency or other source of aid), then that tuition and fee amount is included in the cost of attendance. The tuition and fees payment would then be counted as a resource and estimated financial assistance. However, if the student is never charged for tuition and fees, then the cost of attendance wouldn't include the tuition and fees component. Some JTPA agreements with schools provide that the school can't charge the tuition and fees to the student, even if JTPA doesn't cover the costs. If the school is prohibited under such an agreement from charging tuition and fees to the student, then the tuition and fees aren't included in the student's COA.

Tuition prepayment plans

If the student has a tuition prepayment plan, the amount of the tuition prepayment is generally used to reduce the student's cost of attendance. The prepayment isn't counted as a resource or estimated financial assistance, and the total amount in the plan isn't reported as an asset on the application. If, for accounting purposes, the school can't use the prepayment to reduce the cost of attendance, then the amount of the prepayment is counted as a resource and estimated financial assistance.

Free room and board

If a student lives on campus, the student is considered to have entered into a contract with the school for room and board, even if there's no charge to the student. For the purposes of calculating the cost of attendance, the school must use the contracted charges for the room and board. If that room and board is supplied at no charge, the room and board component of the COA would equal $0.

The value of room and board provided to an employee should be reported as untaxed income, under housing, food, and other living allowances. It isn't considered financial aid unless the room and board is part of an on-campus job that was awarded on the basis of need. If the room and board results from a job that was awarded on the basis of need, then the value of the room and board would be counted as a resource for campus-based purposes and as estimated financial assistance for Stafford purposes and isn't reported as untaxed income. If the student is charged for the room and board and the charge is then waived, the value of the room and board can be included in the cost of attendance.

Documentation of Expenses

The law doesn't specify what documentation the school needs for including expenses such as dependent care or disability-related expenses. The school can document these expenses in any reasonable

Tuition Prepayment Plan Cite

Sec. 480(j)

Free Room and Board Example

Guerrero University saves some of its Resident Assistant jobs for students with exceptional financial need. All Resident Assistants receive a waiver of room and board charges; if the student quits the job, the waiver is removed and the student has to pay the room and board charges. All the students have the room and board charge in their cost of attendance. For students who are Resident Assistants because of their financial need, Guerrero counts the room and board waiver as a resource and estimated financial assistance. The other students must report the waiver as untaxed income.

way, such as documenting an interview with the student or obtaining a written statement from the student, or from other appropriate sources.

RESOURCES AND ESTIMATED FINANCIAL ASSISTANCE

A basic premise of need-based aid is that the total package of aid must not exceed the student's financial need. Therefore, when awarding aid from the SFA programs, the school has to take into account other sources of aid (which can include aid from other SFA programs). The different SFA programs account for other sources of aid in different ways.

Federal Pell Grant Program

Pells are considered to be one of the first sources of aid to the student. The Department issues Pell payment and disbursement schedules that base the award solely on the student's cost of attendance, EFC, and enrollment status. When awarding other sources of need-based aid, the financial aid administrator must take eligibility for Pell into account. It's always possible, however, that the student will receive a scholarship or other aid that, in combination with the Pell, causes the student's financial aid package to exceed his or her need. The school can't award additional need-based **federal** aid that would cause the package to exceed the student's need. If the student's need is exceeded due to the combination of the Pell and other sources of aid, the student is still eligible for the Pell as determined by the payment or disbursement schedule.

Campus-Based Programs

In contrast to the Federal Pell Grant Program, the regulations for the campus-based programs specifically require the school to take into account all resources available to the student when funds are awarded from these programs. If the total of the student's EFC, resources, and campus-based aid exceeds the student's cost of attendance, the campus-based aid must be reduced to prevent an overaward. However, note that there are overaward thresholds (discussed later in this chapter and in the Campus-Based Programs Reference) for the campus-based programs.

The unsubsidized Stafford, PLUS, Direct Unsubsidized, Direct PLUS, and state and private education loans are not considered to be resources to the extent that they finance (or replace) the EFC. Thus, students may borrow under these programs up to the amount of the EFC without affecting eligibility for campus-based aid, a subsidized Stafford Loan, or Direct Subsidized Loan.

For SFA purposes, veterans education benefits are treated as resources, not as income, and therefore are not reported as income on the FAFSA. As a result of Reauthorization, effective October 1, 1998, Americorps benefits are also considered resources.

Note that the income earned from the Veterans Administration Student Work-Study Allowance Program (VASWSAP) is not treated as a veterans education benefit, so it is **not** considered a resource. It should

Resources Cite
34 CFR 673.5(c)

Resources
Pell eligibility (even if student doesn't apply for Pell), Direct and FFEL loans, other education loans, veterans benefits, grants, tuition and fee waivers, scholarships, fellowships, assistantships, and net earnings from need-based employment that will be received during the award year. Effective October 1, 1998, Americorps benefits are also considered a resource.

Campus-Based Resources Example
Andrew's COA is $6,000, and his EFC is 1500. His resources are a $1,675 Pell and a $1,250 outside scholarship. Edison College can award Andrew a $575 FSEOG and a $1,000 Perkins Loan to fully meet his financial need.

Loan and EFC Example
In addition to the aid already discussed, Andrew is receiving a $1,500 unsubsidized Stafford Loan. Because this amount doesn't exceed the EFC, the loan isn't considered a resource, so it doesn't reduce the amount of Andrew's need for campus-based funds. However, if Andrew also received a $500 private loan, the $500 would be a resource, because the amount of unsubsidized loans exceeds his EFC by $500.

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be reported as untaxed income (not income earned from work) on the FAFSA.

Direct and FFEL Loans

For the Direct Loan and FFEL programs, estimated financial assistance, as defined in the law, must be taken into account. Estimated financial assistance includes most of the same sources of assistance as resources, with two exceptions. As a result of Reauthorization, effective October 1, 1998, estimated financial assistance doesn't include Montgomery veteran's benefits under Title 38, chapter 30. Also, although Americorps benefits are now a resource for campus-based aid, they still aren't estimated financial assistance for Direct Subsidized Loans or subsidized Stafford Loans.

The school may certify an application for a subsidized Stafford Loan or originate a Direct Subsidized Loan only for the amount of need that remains after subtracting both the student's EFC and estimated financial assistance from his or her COA. As noted previously, the student can also borrow unsubsidized loans beyond his or her need as long as the loan does not exceed the EFC. Note that a student may qualify for a combination of subsidized and unsubsidized loans.

Before a school can certify a Stafford Loan or originate a Direct Loan, the school must have determined the student's eligibility for a Pell. A school doesn't need to have an official EFC from the CPS to determine the Pell eligibility. Instead, the school can use software at the school to determine if the student's eligible for Pell. On the other hand, the school must have evidence proving that the student's data went through the CPS before the loan can be disbursed.

PACKAGING

Packaging is the process of finding the best combination of aid to meet a student's financial need, given limited resources and given institutional constraints that vary from school to school. A student may be able to receive some federal student aid—in the form of a Pell—even if his or her school doesn't, for example, participate in the campus-based programs and doesn't have its own sources of aid. Any subsidized loan under the FFEL Program or the Direct Loan Program is limited to whichever amount is less: 1) the amount of the student's remaining financial need after his or her estimated financial assistance is taken into account or 2) the loan limit for the student's level and enrollment status. Of course, as explained earlier, the student can also borrow an unsubsidized Stafford, Direct Unsubsidized Loan, PLUS, Direct PLUS, state-sponsored, or private education loan equal to the amount of the EFC. If a school does have other sources of aid, the school must decide how to allocate scarce funds from different sources to meet students' needs.

The school must evaluate numerous variables when packaging aid and may consider questions such as these: Should priority be given to students who apply for aid first (on a "first-come-first-served" basis)?

Estimated Financial Assistance Cite

Sec. 428(a)(2)(C), 34 CFR 682.200(b)

Estimated Financial Assistance Example

Stanislaw's cost of attendance is $6,000; his EFC is 1,500. His estimated financial assistance is a Pell of $1,675, a tuition waiver of $1,000, and a Perkins Loan of $1,500. His total estimated financial assistance is $4,175. Stanislaw is eligible for a maximum subsidized Stafford Loan of $1,825. This amount is calculated by subtracting the EFC and the other aid received from the COA ($6,000 - $1,500 - $4,175). Because unsubsidized Stafford Loans aren't considered a resource as long as the loan amount does not exceed the EFC, Stanislaw would also be eligible for an additional $1,500 in unsubsidized Stafford Loan funds—the amount equal to the EFC.

Subsidized and Unsubsidized Loan Combination Example

Lydia is a first year dependent student, so her loan limit is $2,625. She qualifies for a $1,600 Direct Subsidized Loan, and has no remaining need. Her EFC is 4,532 so she can also borrow an additional $1,025 ($2,625 minus $1,600) Direct Unsubsidized Loan. In addition, her parents could borrow $3,507 in PLUS ($1,025 + $3,507 = $4,532).

Should grant assistance be awarded to beginning students and should loans and work-study go to students who have had a chance to adapt to the academic program? If there are not enough funds to meet every student's need, should school policy be to give more assistance to the neediest students? Or should the school meet an equal proportion of each student's need across the board?

The Department provides a Packaging module as part of EDExpress. The school can enter information about its programs and factors to be considered in packaging, and then use the software to automate the packaging process. Many schools also use third-party software for this purpose. For more information on the EDExpress Packaging module, see the Packaging Desk Reference.

Vocational Rehabilitation Funds

Special considerations in packaging arise when a student qualifies for both SFA funds and for vocational rehabilitation assistance funds. In that case, the school should determine the student's package exclusive of both the costs related to the student's disability and anticipated vocational rehabilitation assistance. In this way, the student with disabilities will be offered the same aid package as a student who is in the same financial situation but who doesn't have disabilities; the student with disabilities will also receive the maximum amount of vocational rehabilitation aid to which he or she is entitled.

If, in packaging aid, the school were to consider both the disability-related costs and an anticipated vocational rehabilitation aid amount that was less than those costs, the amount of SFA funds in the student's package might be increased to cover the remaining costs. When the vocational rehabilitation agency actually disburses funds, it will take that SFA increase into consideration and disburse only the smaller anticipated amount rather than disbursing enough to cover all of the disability-related costs. The school has covered all of the student's need in both cases: But if the increase in SFA funds in the second case is the result of an increased loan amount, the school has unnecessarily added to the student's debt burden. Although the vocational rehabilitation funds shouldn't be considered a resource when the school packages, the school must coordinate funds available from the vocational rehabilitation agency and from institutional, state, and federal student financial assistance programs to prevent an overaward. The amount of assistance from the vocational rehabilitation agency must be documented in the student's file.

Each state association of student financial aid administrators has a voluntary agreement with its state vocational rehabilitation agency; this agreement specifies the procedures for coordinating vocational rehabilitation assistance with other forms of financial aid. For information about your state association's agreement, contact that association or a regional office of the U.S. Department of Education.

OVERAWARDS

An overaward is aid that exceeds the student's need. While the school must always take care not to overaward the student when packaging aid, circumstances may change after the aid has been awarded and may result in an overaward. For instance, the student may receive an academic scholarship, or the student may want to extend his or her work-study employment. When these circumstances would lead to an overaward, the school may be required to adjust the federal student aid in the package.

Federal Pell Grant Program

Pells are never adjusted to take into account other forms of aid. If there's an overaward, the school has to look at other aid it controls, and reduce that aid.

Direct Loan and FFEL Programs

If a school determines before Direct Loan or FFEL funds (other than PLUS) are delivered to the student that the student will receive an overaward, the school must take certain steps to eliminate the overaward. In general, there is no overaward tolerance for these loans. However, if a student's financial aid package also contains FWS, there's a $300 overaward tolerance for the loan overaward. The school in this case wouldn't have to adjust a Stafford or Direct Loan unless the overaward exceeds $300. Note that if the overaward situation occurs after Stafford or Direct Loan funds have been delivered, there is no Stafford or Direct Loan overaward (the school might still have a campus-based overaward to deal with).

- If the school has certified or originated the loan, but hasn't received the funds, the school can have the lender cancel or reduce the loan. The school can also reduce or cancel aid over which it has control.

- If the school has already received the funds, it has a number of options:

    Δ If the package includes a unsubsidized Stafford Loan, Direct Unsubsidized Loan, Direct PLUS Loan, PLUS Loan, or nonfederal loan and the aid package doesn't already apply these loans to finance the EFC, the aid package can be adjusted so that all or some part of these loans replaces the EFC, thus reducing or eliminating the overaward.

    Δ The second or subsequent disbursement of a Stafford or Direct Loan can be canceled or reduced. The school must inform the lender of the reduced award and request cancellation or reduction of subsequent disbursements.

    Δ If these adjustments have been made and an overaward still exists for a Stafford Loan or Direct Loan borrower, the school must withhold and promptly return to the lender or the federal government any funds that have not yet been delivered to the borrower. If the student is determined to be ineligible for the entire loan disbursement and the overaward cannot be reduced or eliminated, the school must return the

Overaward and Unsubsidized Loan Example

Hector's EFC is 3,000. His cost of attendance is $15,000. He is supposed to receive a subsidized Stafford Loan of $8,500 and an unsubsidized Stafford Loan of $3,500, which completely meets his need. Before he receives his first loan disbursement, Guerrero University also gives him a $2,000 scholarship. If Hector's entire loan amount of $12,000 had been subsidized, Guerrero would have to send some of the loan back. However, because part of Hector's loan amount is unsubsidized, Guerrero simply considers that $2,000 of the unsubsidized loan that previously applied to Hector's financial need is now being used to finance his EFC of 3,000.

entire loan proceeds. Note that Stafford and Direct Loan overawards must be repaid before adjusting or canceling campus-based funds.

Δ If the student is ineligible for only a part of the disbursement, the school can return the entire undelivered amount or can choose to return only the amount of aid for which the student becomes ineligible. For a Direct Loan, the school cancels the loan, returns the full disbursement, and originates a new loan for the lower amount. In this case, a new origination record must be created, and a new promissory note must be generated for the student to sign. For a Stafford Loan, a school that returns the entire disbursement then requests a new check for the correct amount. The school must provide the lender with a written statement describing why the funds were returned, and the lender must credit to the borrower's account the portion of the insurance premium and origination fee attributable to the amount returned. If the school returns the entire amount and asks for a new disbursement, the student will pay only for the reduced insurance premium and origination fee (if applicable) attributable to the reduced loan amount. To return only the amount for which the student is ineligible, the school must have the student endorse the loan check or, in the case of a loan disbursed by electronic funds transfer (EFT), obtain the student's authorization to release loan funds. The school can then credit the student's account for the amount for which the student is eligible and promptly refund to the lender the portion of the disbursement for the which the student is ineligible.

Ineligible for Part of Disbursement Example

Owen's loan disbursement was $1,000. However, Guerrero discovered after it received the loan funds that Owen also received a private loan, which created an overaward. Guerrero determines that the overaward is $800. Guerrero could return just the $800 or could instead return the entire check and have the lender issue a new check for $200. If Owen were at a Direct Loan school, the school could return just the $800 or return the full disbursement, cancel the loan, and originate a new loan for $200.

The requirement to return overawards does not apply to Stafford Loans made to cover the cost of attendance at foreign schools or to PLUS or Direct PLUS Loans.

Although a school isn't required to return Stafford Loan or Direct Loan funds that were delivered to the borrower (either directly or by applying them to the student account) before the overaward situation occurred, the law doesn't prevent the school from returning funds that were applied to the student account if the school chooses to do so. The borrower who received funds disbursed directly to him or her is not required to repay funds that were delivered in excess of need unless the overaward was caused by his or her misreporting or withholding of information.

Campus-Based Programs

The school is required to first try to reduce the overaward by following the steps above for undisbursed Direct or Stafford loans. If reducing undisbursed Stafford Loans or Direct Loans doesn't eliminate the overaward, the school may be required to reduce the amount of campus-based aid that has been awarded the student. Campus-based aid need not be reduced if the overaward doesn't exceed $300, which is the overaward threshold for all campus-based programs. Note that the $300 threshold is allowed only if an overaward occurs after campus-based aid has been packaged. The threshold does not allow a school to deliberately award campus-based aid that, in combination with other resources, exceeds the student's financial need. (See the Campus-Based Programs Reference.)

The school should try to eliminate the overaward by reducing future payments of campus-based aid. If the overaward can't be eliminated by reducing future payments of campus-based aid, the student must repay the full amount of the campus-based funds that he or she received in excess of need. However, the student cannot be required to repay FWS wages he or she has earned.

FWS Program

Because the student can't be required to repay wages earned, the school can only adjust FWS by reducing future payments. The school can continue to employ the student, as long as it no longer pays him or her from FWS funds. If the school has already adjusted all other federal aid and institutional aid, and there's still an overaward, the school must reimburse the FWS program from the school's funds. The school cannot require the student to repay wages earned, except in the case of proven student fraud.

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UNITED STATES OF AMERICA

1999-2000

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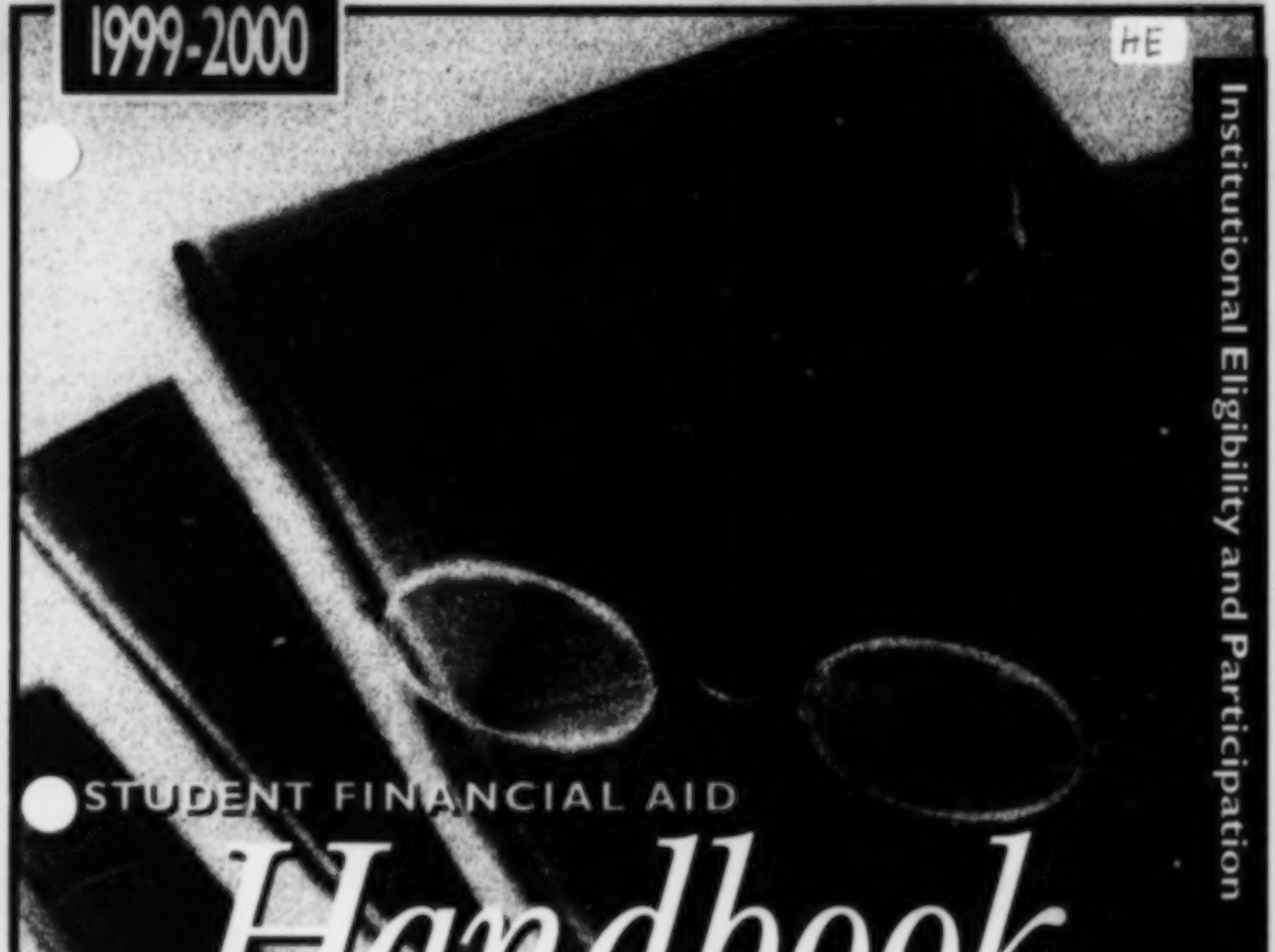

Institutional Eligibility and Participation

STUDENT FINANCIAL AID

Handbook

US DEPARTMENT OF EDUCATION

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Introduction

i

The purpose of this publication is to describe how a school becomes eligible to participate in the Student Financial Assistance (SFA) Programs and to explain the administrative and fiscal requirements of SFA Program participation. In addition, this publication discusses other issues relevant to the general administration of the SFA Programs.

This introduction provides a brief overview of each chapter and lists the major changes to the content of each.

Section 492 of the Higher Education Act requires the Department to obtain input from the financial aid community in the development of proposed regulations for the SFA Programs. The Department is obtaining this input through regional meetings and through a process called "negotiated rulemaking."

In negotiated rulemaking, the Department meets with representatives of many areas of the financial aid community, such as students, schools, and guaranty agencies, to obtain advice and recommendations for effective implementation through regulation of SFA Program requirements.

Most of the new statutory provisions of the Amendments of 1998, Public Law 105-244 (the Amendments of 1998) are subject to the requirements of the negotiated rulemaking process. At the time this Handbook goes to print, the Department is in the middle of that process. As a result, guidance for implementation of these provisions of the Amendments of 1998 is under discussion and is not available for this publication. Interim guidance may be issued on the Department's "Information for Financial Aid Professionals" web site after these provisions are discussed further with the higher education community during the negotiated rulemaking process.

This publication does contain summaries of the provisions of the Amendments of 1998 that affect institutional eligibility and participation in the SFA Programs. These items are marked by the following symbol: Amendments of 1998

New information and clarifications of existing provisions are indicated with the following symbols:

NEW CLARIFICATION

Major Changes by Chapter:

Chapter 1: Institutional and Program Eligibility

Chapter 1 explains the statutory definitions for eligible institutions and program eligibility requirements.

- The Amendments of 1998 made the following changes that effect this chapter:
    - The eligible institution definitions are consolidated in the law.
    - Schools are required to provide evidence of their authority to operate in a state.
    - Student eligibility is extended to some home-schooled students.
    - Clarification of the definition of a branch campus is provided.
    - The percentage of revenue from the SFA Programs that a proprietary school may derive is changed from 85% to 90%.
    - The Incarcerated Student Limitation waiver is expanded.
    - An exemption from bankruptcy provision for some schools that provide health care services are added.
    - Requirements for foreign medical schools now apply to foreign veterinary schools.
- The effect of the Solomon-Pombo Amendments on the SFA Programs is discussed.

Chapter 2: General Participation Requirements

Chapter 2 is an overview of the general requirements for SFA Program participation.

- The Amendments of 1998 made the following changes that effect this chapter:
    - An exemption is added for some schools from the required submission of a default management plan.
    - The requirement that a school submit information related to athletically related student aid is moved, with some modifications, from the Program Participation Agreement section of the law to the Equity in Athletics section of the law.
    - Schools are required to make a good faith effort to distribute voter registration forms unless the school is in a state that has in effect the motor vehicle registration provision of the National Voter Registration Act.
    - Clarification that a school must provide a copy of its contract with a third-party servicer only upon request is provided.

Chapter 3: Administrative Capability

Chapter 3 discusses the requirements a school must meet to demonstrate that it is administratively capable of participating in the SFA Programs.

- Information is included on Action Letter GEN-97-11, published October 1997, that provides additional guidance on the implementation of the electronic processes requirements.

- The Amendments of 1998 made the following changes that effect this chapter:

    - Δ The Department must notify schools, guaranty agencies, lenders, interested software providers and others of software and hardware requirements by December 1 prior to the beginning of the award year.
    - Δ An exemption is provided for some schools from required submission of a default management plan.
    - Δ A school is ineligible to participate in the Pell Grant Program if it loses eligibility to participate in the FFEL or the Direct Loan programs due to high default rates.

- Information is provided on the Department's "fax broadcast" service.

Chapter 4: Financial Responsibility

Chapter 4 describes the financial responsibility requirements for all schools participating in the SFA Programs.

- The Amendments of 1998 made the following changes that effect this chapter:

    - Δ The criteria used to determine the financial responsibility of a school is revised to be based on whether it meets certain ratios that demonstrate financial responsibility. Previous criteria required the Department to consider operating losses, net worth, asset-to-liabilities ratios, or operating fund deficits.
    - Δ Public schools are included with for-profit and nonprofit institutions with respect to taking into consideration differences in generally accepted accounting principles.
    - Δ The Department is permitted to determine what third-party financial guarantees are acceptable in order for a school to be considered financially responsible even though it failed to meet other mandated measures of financial responsibility.

- This chapter includes a discussion of the November 25, 1997 final regulations that substantially revised the financial responsibility requirements.

Chapter 5: Cash Management

Cash management rules are discussed in Chapter 5.

- Final regulations (the "financial responsibility regulations) published on November 25, 1997 added the cash monitoring payment method. This new payment method is discussed here.
- This chapter provides information from "Dear Colleague" letter P-98-5, which invited schools to consider volunteering to be the first participants in the just-in-time payment method by participating in a pilot program.
- The Department has converted to the Education Central Automated Processing System.
- The Amendments of 1998 provide exemptions, under certain circumstances, to schools with low default rates from multiple disbursement requirements and the 30-day delay requirements.
- Clarification on the definition and handling of SFA credit balances is provided.

Chapter 6: Refunds and Repayments

Chapter 6 explains how SFA Program funds are handled for students who withdraw from school.

- The Amendments of 1998 changed substantially the way funds paid toward a student's education are to be handled when a recipient of SFA Program funds withdraws from school. Schools are not required to implement these new provisions until October 7, 2000. However, a school may choose to implement the new provisions prior to that date. This change to the law is discussed here.
- The Amendments of 1998 allow the Department to assess a penalty, equivalent to the penalty applicable to nonpayment of taxes, for a willful failure to pay a refund.
- Clarification is provided on the definition of institutional charges. This clarification was published in a Policy Bulletin that was published on the Information for Financial Aid Professionals (IFAP) web site on January 7, 1999.
- Clarification is provided on the definition of "aid received," including a discussion of institutional scholarships and loans.
- The requirements of the cash management regulations for the treatment of excused absences now apply, with slight modification, to the calculation of refunds.
- The Department has determined that a school may use its own funds to eliminate remaining Direct Loan and Perkins Loan balances. A school was already permitted to use its own funds to eliminate remaining FFEL balances.

Chapter 7: Consumer Information

Chapter 7 provides information on the requirements for the consumer information that a school must provide to students, the Department, and others.

- The Amendments of 1998 made the following changes that effect this chapter:

Basic Consumer Information Requirements

Δ A school may use electronic media to provide required consumer information to students.

Δ Each year a school must provide to enrolled students a list of the information it must disseminate under the Higher Education Act of 1965, as amended, and the Family Education Rights and Privacy Act (FERPA) and the procedures for obtaining the information.

Δ The Department must provide information describing prepaid tuition and savings programs, and must include on its Internet site links to databases with information on public and private financial assistance programs and links to resources from which students may obtain information about fraudulent and deceptive financial aid practices.

Campus Security Requirements

Δ Schools must submit their crime statistics annually to the Department. The Department is required to make copies of these statistics available to the public and must submit to Congress a comprehensive report on crime statistics by September 1, 2000.

Δ Changes are made to the definition of a campus.

Δ The list of crimes that a school must include in its report is expanded.

Δ Schools must make, keep and maintain daily logs of crimes reported to police or security departments.

Student Right to Know Requirements

Δ Disclosures must be made by July 1 of each year.

Δ Schools may provide supplemental information about students who were excluded from the completion rate calculation or for students transferring into the institution or information showing the rate at which students transfer out of the institution.

Δ The NCAA is allowed to distribute graduation rate information to all secondary schools in the U.S. to satisfy the distribution requirements for prospective student athletes' guidance counselors and coaches.

- *Equity in Athletics Requirements*

Δ The requirement that a school submit information related to athletically related student aid is moved from the Program Participation Agreement section of the law to the Equity in Athletics section of the law.

Chapter 8: Recordkeeping and Disclosure

Chapter 8 discusses the requirements for maintaining and disclosing records for the SFA Programs.

- No major changes.

Chapter 9: Agreements Between Schools

Chapter 9 discusses the use of agreements between schools to pay a student who is taking courses in an eligible program at more than one school.

- No major changes.

Chapter 10: Applying for and Maintaining Participation in the SFA Programs

Chapter 10 explains how to apply for SFA participation, changes that can affect a school's participation and how to report these changes, the Quality Assurance Program, and the Experimental Sites Initiative.

- The Amendments of 1998 made the following changes that effect this chapter:

    Δ A school is allowed to provide a copy of its contract with a third-party servicer upon request, rather than being required to submit it as part of the certification process.

    Δ The Application is to contain information that allows the Department to evaluate a school's financial responsibility and administrative capability. In addition, the Application must provide, at the option of a school, for participation in one or more of the FFEL and Direct Loan programs.

    ΔThe certification period is extended to up to 6 years. In addition, the Department must notify schools six months in advance of the expiration of their certification.

    Δ Site visits as part of the certification and recertification process are now permissive rather than mandatory.

    Δ The Department may grant provisional certification to a school seeking approval of a change in ownership based on the Department's preliminary review of a materially complete application that is received by the Department within 10 business days of the transaction for which approval is sought.

    Δ A school is exempt from submitting a default management plan if (a) neither the subordinate institution nor parent institution has a cohort default rate of 10 percent or less and (b) the new owner does not own, and has not owned, any other school with a cohort default rate in excess of 10 percent.

    Δ The Department must publish special recertification regulations for foreign schools that receive less than $500,000 in FFEL loan funds.

    Δ The Amendments also made several changes to the Quality Assurance Program and the Experimental Sites Initiative.

- This chapter provides an update on the Single Identifier Initiative.

Chapter 11: Program Reviews and Audits

Program Integrity issues, such as audits and program reviews, responsibilities that a school must fulfill when leaving the SFA Programs, and sanctions and corrective actions taken by the Department are discussed in Chapter 11.

- The Amendments of 1998 made the following changes that effect this chapter:

    A Each state (through at least one state agency) must furnish the Department, upon request, with information regarding licensing and other authorization for a school to operate in that state, promptly notify the Department of revocations of licensure or authorization, and promptly notify the Department of credible evidence that a school has committed fraud in the administration of the SFA Programs or has substantially violated a provision of the HEA.

    A Changes are made to the requirements for accrediting agencies.

    AThe Amendments of 1998 created a limited exception to the annual audit requirement.

    A Site visits as part of the certification and recertification process are now permissive rather than mandatory.

    A The Department is required to give priority in program reviews to schools that meet certain criteria. In addition, the Amendments added special administrative rules for program reviews. The Amendments of 1998 also require civil penalties arising from a program review or audit to be based upon the gravity of the violation.

    A The Department is given the authority to issue administrative subpoenas to assist in conducting investigations of possible violations of the provisions of SFA Programs. In addition, the law authorizes the Department to request the Attorney General to invoke the assistance of any court of the United States for purposes of enforcement of a subpoena if necessary.

- A phone number is provided for small businesses to call to comment on the enforcement actions of the Department of Education, call 1-888-REG-Fair (1-888-734-3247).

Chapter 12: Distance Education

Chapter 12 discusses the applicability of the SFA Program requirements to distance education programs.

- The Amendments of 1998, Public Law 105-244 (the Amendments of 1998) created a Distance Education Demonstration Program.

- This chapter also repeats the guidance on the applicability of current SFA Program requirements provided in Dear Colleague letter GEN-98-10.

We are interested in hearing your comments or suggestions on ways to make the SFA Handbook more useful. Please send your comments to:

Development Section
Department of Education
ROB-3, Room 3013
7th and D Streets, SW
Washington, DC 20202

CHAPTER 1

Institutional and Program Eligibility

This chapter discusses the three types of institutions that are eligible to participate in the SFA Programs and the effect of program eligibility requirements on institutional eligibility.

A school that wishes to participate in the SFA Programs must demonstrate that it is eligible to participate before it can be certified for participation. A school must apply to the Department and receive approval from the Department of its eligibility to participate. Note that some schools apply for a designation as an eligible institution only (they do not seek to participate) so that students that attend the school may receive deferments on SFA Program loans, be eligible for the HOPE Scholarship tax credit, or so that the school may apply to participate in federal HEA programs other than the SFA Programs. The same application form is used to apply for both eligibility to participate and certification for participation. For more information on applying to participate, see Chapter 10.

Definitions of Eligible Institutions Cites
Title I, part A, 34 CFR Part 600 Subpart A

Nonprofit Institution:
A school that is
- *owned and operated by one or more nonprofit corporations or associations whose net earnings do not benefit any private shareholder or individual,*
- *legally authorized to operate as a nonprofit organization by each state in which it is physically located, and*
- *determined by the Internal Revenue Service to be eligible for tax-deductible contributions.*

THE THREE DEFINITIONS OF ELIGIBLE INSTITUTIONS

The institutional eligibility laws and regulations define three types of eligible institutions. Under the three definitions, a school is eligible to participate in all the SFA Programs, provided the school offers the appropriate type of eligible program. (Refer to the chart on page 2.) This section covers the key elements of the three definitions, giving special attention to those requirements that affect the definition of an eligible program.

Although the criteria for each of the three types of institutions differ somewhat, these eligible school definitions are not mutually exclusive. That is, a public or private nonprofit school may meet the definition of more than one type of institution.

Amendments of 1998

Note that the Higher Education Amendments of 1998, Public Law 105-244, (the Amendments of 1998), consolidate the definitions of eligible institutions into Title I, part A of the Higher Education Act. Sections 481(a), (b), and (c), and Title XII, the former statutory cites for the definitions of an eligible institution, have been deleted. This change is effective October 1, 1998.

Eligible School Definitions

Institution of Higher Education	*Proprietary Institution of Higher Education*	*Postsecondary Vocational Institution*
ELIGIBLE FOR ALL SFA PROGRAMS		
Control: A public or private nonprofit educational institution located in a state.*	*Control:* A private for-profit educational institution located in a state.* *Special Rule:* Derives no more than 90% of its revenues from the SFA Programs.	*Control:* A public or private nonprofit educational institution located in a state.*

Legal authorization: Is legally authorized by the state where it offers postsecondary education to provide a postsecondary educational program.

Accreditation: Is accredited by a nationally recognized accrediting agency or has met the alternative requirements, if applicable.

Admissions: Admits as regular students only persons with a high school diploma or its recognized equivalent, or persons beyond the age of compulsory attendance in the state where the institution is located.

Program offered:

Provides:

(1) an associate, bachelor's, graduate, or professional degree, or

(2) at least a two-year program that is acceptable for full credit toward a bachelor's degree, or

(3) at least a one-year training program that leads to a degree or certificate (or other recognized educational credential) and prepares students for gainful employment in a recognized occupation.

Program offered: Must provide training for gainful employment in a recognized occupation, and must meet the criteria of at least one category below.

(1) Provides at least a 15-week (instructional time) undergraduate program of 600 clock hours, 16 semester or trimester hours, or 24 quarter hours. **May** admit students **without** an associate degree or equivalent.

(2) Provides at least a 10-week (instructional time) program of 300 clock hours, 8 semester or trimester hours, or 12 quarter hours. Must be a graduate/professional program, or **must** admit only students with an associate degree or equivalent.

(3) *Short-term Program.* Provides at least a 10-week (instructional time) undergraduate program of 300-599 clock hours. **Must** admit at least some students who do **not** have an associate degree or equivalent, and must meet specific qualitative standards (see page 3-12). **Note: These programs are eligible only for FFEL and Direct Loan participation.**

Two-year Rule: Has been legally authorized to give (and has been giving) postsecondary instruction for at least two consecutive years.

* See the definition of "state" on the facing page.

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CONTROL AND LEGAL AUTHORIZATION

Control

The "control" of an institution distinguishes whether the school is public or private, nonprofit or for-profit. Under the institutional definitions, an "institution of higher education" or a "postsecondary vocational institution" can be either public or private, but is always nonprofit. A "proprietary institution of higher education" is always a private, for-profit institution.

Legal Authorization by a State

With the exception of foreign schools (see page 18), an eligible institution under any of the three definitions must be located in a state. The definition of a "state" includes not only the 50 States of the Union, but also American Samoa, Puerto Rico, the District of Columbia, Guam, the Virgin Islands, and the Northern Mariana Islands. For the purposes of the Federal Pell Grant (Pell Grant), Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Work-Study (FWS) programs, a "state" also includes the Freely Associated States, which include the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. Generally, the determining factor is the physical location of the main campus or place of instruction. For instance, if a school's main campus is in a state, as defined above, the school can still have an additional location in a foreign country.

To qualify under any of the three institutional definitions, a school must be legally authorized by the state in which it offers an educational program to provide the program. The state's legal authorization may be provided by the licensing board or educational agency. In some cases, the school's charter is its legal authorization. In other cases, a school is considered to be legally authorized if state law does not require it to have a license or other formal approval.

Effective October 1, 1998, the Amendments of 1998 require schools to provide evidence that they have the authority to operate in a state at the time of the school's certification to participate in the SFA Programs. For more information on applying for participation in the SFA Programs, see Chapter 10.

Amendments of 1998

ACCREDITATION

Generally, an institution must be accredited by a nationally recognized accrediting agency or association (both referred to here as agencies) to be eligible. The Department has published regulations governing the procedures and criteria for recognizing accrediting agencies. For more information, see Chapter 11.

The Department periodically publishes a list of recognized accrediting bodies in the Federal Register, based on criteria given in 34

Evidence of Authority to Operate in a State Cite
Sec. 495(b)

Nationally Recognized Accrediting Agency or Association:
An accrediting agency or association which the Department has recognized to accredit or pre-accredit a particular category of institution, school, or educational program in accordance with the provisions in 34 CFR Parts 602 and 603.

Preaccredited:
A status granted by a nationally recognized accrediting agency or association to a public or private nonprofit institution that is progressing towards accreditation within a reasonable period of time.

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CFR Part 602. Copies of this list are also available from the Department at the following address:

U.S. Department of Education
Accreditation and Eligibility Determination Division
400 Maryland Ave. SW, Room 3012 (ROB-3)
Washington, DC 20202-5244

Alternatives to Accreditation

The law provides two statutory alternatives to accreditation. First, a nonprofit institution may be preaccredited by an agency or association that has been approved by the Department to grant such preaccreditation. Secondly, unaccredited public postsecondary vocational educational institutions may be eligible for SFA Program funds if accredited by a state agency that the Department determines to be a reliable authority.

Changes in Accreditation

If a school loses its accreditation, it is ineligible to participate in the SFA Programs and must notify the Department within 10 days.[1] However, if a school's accrediting agency loses its recognition from the Department, the school has up to 18 months in which to obtain accreditation from another recognized agency. Other changes in accreditation may also jeopardize institutional participation. If a school changes accrediting agencies, it may be subject to termination unless the school submits to the Department all materials relating to the prior accreditation, including materials demonstrating reasonable cause for changing accrediting agencies. A school must obtain written approval from the Department for the change of accrediting agency to continue its eligibility status (see Chapter 10).

Dual Accreditation

If a school is accredited by two agencies at the same time, the school must designate which agency's accreditation will be used in determining institutional eligibility for SFA funds and must inform the Department of the designation. Further, the school must provide to the Department (and to both agencies involved) all materials documenting sufficient reason and cause for dual accreditation before the school adds the additional accreditation. See Chapter 11 of this chapter for more on changes in accreditation and loss of eligibility.

ADMISSIONS STANDARDS

An eligible institution may admit as regular students only persons who have a high school diploma or its recognized equivalent, or persons who are beyond the age of compulsory school attendance in the state in which the school is located.

Students who are beyond the age of compulsory attendance but who do not have a high school diploma or its recognized equivalent must meet ability-to-benefit criteria to be eligible for aid from the SFA Programs. (For more information on this student eligibility requirement, see the *SFA Handbook: Student Eligibility*.)

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[1] An accredited or preaccredited school must agree to submit, for any dispute involving the termination of accreditation, to binding arbitration before initiating any other legal action.

Home Schooling Cite:
Sec. 484(d)

The Amendments of 1998 extend student eligibility to home-schooled students who complete a secondary school education in a home school setting that is treated as a home school or private school under state law. This provision is subject to the negotiated rulemaking process and its effect on institutional eligibility has not yet been determined. This provision is effective October 1, 1998.

Amendments of 1998

High School Diploma

For SFA purposes, the school is not required to keep a copy of a student's high school diploma or GED, which is a recognized equivalent of a high school diploma (see below). Rather, the school may rely on the student's certification that he or she has received the credential and a copy of the certification must be kept on file. This certification need not be a separate document. It may be collected on the school's admissions application. The school may also require the student to provide supporting documentation.

Regular Student:
A person who is enrolled (or is accepted for enrollment) in an eligible program for the purpose of obtaining a degree, certificate, or other recognized educational credential.

Recognized Equivalent of a High School Diploma

Generally, a recognized equivalent of a high school diploma is either a GED or a state certificate (received after the student has passed a state authorized test) that the state recognizes as being equivalent to a high school diploma. However, the Department recognizes that there are special cases. If a student has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor's degree, the student's academic transcript is considered equivalent to a high school diploma. A student without a high school diploma who is seeking enrollment in a program of at least the associate-degree level, and who has excelled academically in high school and met formalized written admissions policies of the school, is also considered to have the equivalent of a high school diploma. These students may be eligible to receive SFA Program funds without having to meet the ability-to-benefit requirements, provided the students are no longer enrolled in high school.

A school that admits students who do not have a high school diploma or its recognized equivalent has some additional considerations. A school does not qualify as an eligible institution if, for its latest complete award year, more than 50% of its regular enrolled students had neither a high school diploma or its equivalent, unless the school provides a four-year bachelor's degree program or two-year associate degree program. A waiver of this limitation is possible for some schools. See page 11 for more information.

GED Preparatory Program Required

A school that participates in the SFA Programs and admits students without a high school diploma or its equivalent must make a GED preparatory program available to its students. (For more information see the discussion of the Program Participation Agreement in Chapter 2.)

"TWO-YEAR" RULE

To be eligible as a proprietary institution or a postsecondary vocational institution, a school must have provided continuous postsecondary instruction (and been legally authorized to do so) for at least two consecutive years. The educational program(s) offered must remain substantially the same in length and subject matter, except for changes made because of new technology or other federal agencies' requirements.

A branch campus seeking status as a main campus or free-standing institution is subject to the two-year rule. The Amendments of 1998 clarify that this means that a branch campus must be in existence for two years after certification as a branch campus before the branch can seek certification as a main or freestanding campus. This provision is effective October 1, 1998. A branch campus's time as a branch campus counts toward the two years. An additional location must obtain approval from the Department to become a branch campus. The branch campus then must also satisfy the two-year rule by operating independently for two years before it may be evaluated to be considered a free-standing institution. Time as an additional location of an eligible proprietary institution or postsecondary vocational institution does not count toward the two-year rule, but time as an eligible institution of higher education or its additional location does.

Amendments of 1998

Branch Campus

A branch campus is a location of a school that is geographically apart and independent of the main campus of the school. A location is independent of the main campus if the location:
- *is permanent in nature;*
- *offers courses in educational programs leading to a degree, certificate, or other recognized educational credential;*
- *has its own faculty and administrative or supervisory organization; and*
- *has its own budgetary and hiring authority*

Branch Campus Cite

Sec. 498(j)

ADDITIONAL INSTITUTIONAL ELIGIBILITY FACTORS

A school is not an eligible institution if the school violates the 90/10 Rule (applicable to proprietary schools only), the Correspondence Course Limitation, the Correspondence Student Limitation, the Incarcerated Student Limitation, or the Ability-To-Benefit Student Limitation. In addition, a school is not eligible if it files for bankruptcy, or if the school, its owner, or its CEO is responsible for a crime involving SFA Program funds. If a school becomes ineligible because of one of these factors, the school must immediately stop awarding SFA Program funds and must comply with the requirements in 34 CFR 668.26 for a school that has lost its SFA participation (for more information on requirements when a school's SFA participation ends, see Chapter 11).

Demonstrations of Compliance

All of the "limitation" requirements and the 90/10 Rule involve certain percentage calculations, which are performed by the school either to demonstrate compliance with a requirement or to demonstrate eligibility for a limitation waiver. In the case of the Correspondence Course Limitation, the Correspondence Student Limitation, the Incarcerated Student Limitation, and the Ability-To-Benefit Student Limitation, a calculation performed by the school must be attested to by the certified public accountant (CPA) who prepares the school's audited financial statement or its SFA compliance audit (for more information on audits, see Chapter 11). The CPA's report must be part of the audit record and must include a recalculation if a school's initial calculation was in error. The CPA's attestation report must indicate whether the school's determinations (including any relevant waiver or exception) are accurate. Requirements for demonstrating compliance with the 90/10 Rule are discussed below.

90/10 Rule Cite
Sec. 102

For each of the limitation requirements, the school must notify the Department of the school's failure to meet a requirement, its falling within a prohibited limitation, or its ineligibility for a continued waiver, as applicable. The school's notification must occur by July 31 following the end of an award year. If a school fails to meet any of these requirements, the school loses its eligibility to participate in any SFA Program as of the last day of the most recent award year.

To regain institutional eligibility lost due to the limitation requirements, the school must demonstrate its compliance with all eligibility requirements and its ability to stay outside prohibited limits for at least one award year. Further, it must also show how its administrative practices and policies have been changed to ensure that it will not fall within prohibited limits in the future.

Proprietary institutions have 90 days after their most recently completed fiscal year has ended to report to the Secretary if they did not satisfy the 90/10 Rule for that period. Schools that fail to satisfy the 90/10 Rule lose their eligibility as of the last day of that fiscal year.

If a school becomes ineligible because it files for bankruptcy, or if the school, its owner, or its CEO is responsible for a crime involving SFA Program funds, the school must notify the Department within 10 days. The loss of eligibility is effective as of the date of the bankruptcy, or the date the school or individual pleads to or is found responsible for the crime, as applicable. A loss of eligibility for these two reasons is permanent. The institution's eligibility cannot be reinstated.

The 90/10 rule (formerly the 85/15 rule)

To be eligible for SFA participation, a proprietary institution may derive no more than 90% of its revenues from the SFA Programs.

Previously, a proprietary institution was permitted to derive no more than 85% of its revenues from the SFA Programs. However, effective October 1, 1998, the Amendments of 1998 changed this amount to 90%.

Amendments of 1998

As specified in 34 CFR 600.5(d), a school must determine its revenue percentages using the following formula:

SFA Program Funds (except SSIG or FWS) used for tuition, fees, and other institutional charges to students

The sum of revenues generated by the school from: (1) tuition, fees, and other institutional charges for students enrolled in eligible training programs; plus (2) school activities necessary for the education or training of students enrolled in those eligible programs*

*to the extent not included in tuition, fees, and other institutional charges

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Exclusions from Fraction

In determining whether a school satisfies the 90/10 Rule, the totals used in the fraction do not include refunds paid to or on behalf of students who have withdrawn, dropped out, been expelled, or otherwise failed to complete the period of enrollment. Charges for books, supplies, and equipment are not included in the fraction unless the amount is part of the tuition, fees, or other institutional charges.

SFA Program Funds for Institutional Charges

In figuring what SFA Program funds were used to pay tuition, fees, and other institutional charges, a school **must** assume that any SFA Program funds disbursed (or delivered) to or on behalf of a student were used for such costs, unless those costs were otherwise paid by

- grant funds provided by non-federal public agencies,

- grant funds provided by independent private sources, or

- funds from qualified government agency job training contracts.

Revenues

In figuring revenues generated by school activities, a school may include only revenue from activities that are conducted on campus or at a facility under the control of the school, that are performed under the supervision of a faculty member, and that are necessary for the training of its students who are enrolled in an eligible program.

Time Period Covered

As mentioned above, a proprietary institution must determine whether it satisfied the 90/10 Rule during its most recently completed fiscal year. For example, for schools using a calendar year as their fiscal year, their most recently completed fiscal year is the one that ended on December 31, 1998. For those schools using the award year as their fiscal year, their most recently completed fiscal year will be the one that ends on June 30, 1999.

Failure to Satisfy the 90/10 Rule

Schools that fail to satisfy the 90/10 Rule lose their eligibility on the last day of that fiscal year. As mentioned earlier, the school must immediately stop awarding SFA Program funds and comply with the provisions of 34 CFR 668.26. Schools have 90 days after their most recently completed fiscal year has ended to report to the Secretary if they did not satisfy the 90/10 Rule for that period.

Notification

A proprietary school is required to disclose the percentage of its revenues derived from the SFA Programs (that the school received during the fiscal year covered by the audit) as a footnote to its audited financial statement (for information on audited financial statements, see Chapter 11).

A school must notify the Department of its failure to satisfy the 90/10 Rule at one of the following addresses:

Correspondence Course:
A home study course provided to students who are not physically attending classes at the school; a course that is part residential and part correspondence. (Includes video courses unless students physically in attendance at the school receive the same video instruction in the same award year.)

By U.S. Postal Service

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

By commercial overnight mail/courier delivery

U.S. Department of Education
Institutional Participation and Oversight Service
7th and D Streets, SW
GSA Building, Room 3514
Washington, DC 20407

By Internet

IPOS@ed.gov

Correspondence Course Limitation

A school is not eligible for SFA Program participation if, during the school's latest complete award year, more than 50% of its courses are taught through correspondence.[2]

In calculating the percentage of "correspondence courses," a correspondence course can be either a complete educational program offered by correspondence or a single course offered by correspondence that is part of a larger, on-campus (residential) program. Regardless of how many times a course or program is offered during the award year, it is counted only once. (A course offered both through correspondence and on campus is counted as two courses when determining the total number of courses offered by the school.) The school's Correspondence Course calculation must be attested to by a CPA, as discussed previously.

This requirement does not apply to a school that mainly provides vocational adult education or job training (as defined under the Carl D. Perkins Vocational and Applied Technology Education Act).

For information about a student's eligibility for SFA Program funds while enrolled in a correspondence course and cost of attendance information for correspondence courses, see the *SFA Handbook: Student Eligibility.*

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[2] A telecommunications course is considered to be a correspondence course if the sum of telecommunications courses and other correspondence courses provided by the school during its latest complete award year was equal to or more than 50% of the total courses provided that year.

Telecommunications Course:
A course offered principally through television, audio, or computer transmission, including open broadcast, closed circuit, cable, microwave, satellite, or audio or computer conferences. (Includes video courses if students physically attending the school also receive the video course in the same award year.)

Distance Education
For information on the Distance Education, see Chapter 12.

Incarcerated Student
An "incarcerated student" is a student who is serving a criminal sentence in a federal, state, or local penitentiary, prison, jail, reformatory, work farm or other similar correctional institution. (Does not include detention in a halfway house, home detention, or weekend-only sentences.)

Incarcerated Student Limitation Cite
Sec. 102

Amendments of 1998

Correspondence Student Limitation

A school is also not eligible for SFA Program participation if, for its latest complete award year, 50% or more of its regular students are enrolled in correspondence courses. "Telecommunications courses" may be considered to be correspondence courses (see the definitions and the footnote on the this page). The rules for calculating this percentage are the same as given previously for the calculation of the correspondence course percentage. The calculation should reflect a straight "head count" of students. That is, each regular student must be counted regardless of full-time or part-time attendance and will be counted only once during an award year, regardless of withdrawal and reenrollment. (Students who enrolled, withdrew, and subsequently received a full refund should not be included in the count.) The school's Correspondence Student calculation must be attested to by a CPA, as discussed previously.

This requirement is waived for a school that offers a two-year associate degree or four-year baccalaureate degree program if the school demonstrates that the students enrolled in its correspondence courses receive no more than 5% of the total SFA Program funds received by all of the school's students. This requirement also does not apply to an institution that mainly provides vocational adult education or job training (as defined under the Carl D. Perkins Vocational and Applied Technology Education Act).

Incarcerated Student Limitation

A school is not eligible for SFA Program participation if, for its latest complete award year, more than 25% of its regular students are incarcerated. If requested by the school, the Department may waive this limitation for a nonprofit school offering a two-year associate degree, or a four-year baccalaureate degree program. In addition, the Amendments of 1998 expand this waiver to include nonprofit institutions providing two-year or four-year programs of instruction that lead to postsecondary diplomas. For the purposes of this waiver, "nonprofit" includes public institutions.

For a school offering only two-year or four-year programs that lead to associate or bachelor's degrees, respectively, the waiver applies to all programs offered at the school. However, if the school offers other types of programs, the waiver would apply to any of the school's two-year bachelor's or four-year associate degree programs, and also to any other programs in which the incarcerated regular students enrolled that have a 50% or greater completion rate. (The calculation of this completion rate is specified in Section 600.7(e)(2) of the Institutional Eligibility regulations and must be attested to by a CPA, as discussed previously.) If granted, the waiver is effective as long as the school continues to meet the waiver requirements each award year. (For information on the eligibility of incarcerated students for SFA assistance, see the *SFA Handbook: Student Eligibility*.)

Ability-to-benefit Limitation

A school does not qualify as an eligible institution if, for its latest complete award year, more than 50% of its regular enrolled students had neither a high school diploma nor its equivalent (referred to here as ability-to-benefit students), unless the school provides a four-year bachelor's degree program or two-year associate degree program.

The Department may waive this limitation for a nonprofit school if the school demonstrates, to the Department's satisfaction, that it exceeds the limitation because it serves significant numbers of ability-to-benefit students through government agency contracts, such as a contract under the Job Training Partnership Act. A school will not be granted this waiver if more than 40% of the school's enrolled regular students do not have a high school diploma or equivalent and are not served through contracts with federal, state, or local government agencies. The purpose of the contracts must be to provide job training to low-income individuals who are in need of the training. If granted, the waiver extends as long as the school continues to meet the waiver requirements each award year. The school's "Ability-To-Benefit" calculation must be attested to by a CPA, as discussed previously.

Bankruptcy

A school is not an eligible institution if the school, or an affiliate of the school that has the power, by contract or ownership interest, to direct or cause the direction of the management of policies of the school, files for relief in bankruptcy, or has entered against it an order for relief in bankruptcy.

The Amendments of 1998 provide that this requirement does not apply to a nonprofit institution (or an affiliate of such a school that has the power, by contract or ownership interest, to direct or cause the direction of the management of policies of the school) that has a primary function of providing health care educational services if the school filed for bankruptcy under chapter 11 of title 11, United States Code, between July 1, 1998, and December 1, 1998.

Amendments of 1998

Crimes involving SFA Program Funds

A school is not an eligible institution if the school, its owner, or its chief executive officer:

- has pled guilty to, has pled nolo contendere to, or is found guilty of, a crime involving the acquisition, use, or expenditure of SFA Program funds; or

- has been judicially determined to have committed fraud involving SFA Program funds.

PROGRAM ELIGIBILITY REQUIREMENTS

To qualify as an eligible institution, a school must offer at least one eligible program. Not all programs at an eligible institution will necessarily be eligible, but at least one of the programs at the school must meet the eligible program requirements.

Determination of Program Eligibility

Generally, a student must be enrolled in an eligible program to receive SFA funds (for more information, see the *SFA Handbook: Student Eligibility*). Because a school's eligibility does not necessarily extend to all its programs, the school must ensure that a program is eligible before awarding SFA Program funds to students in that program. The school is ultimately responsible for determining that a program is eligible. In addition to determining that the program meets the eligible program definition, the school should make certain that the program is included under the notice of accreditation from a nationally recognized accrediting agency (unless the agency does not require that particular programs be accredited). The school should also make certain that it is authorized by the appropriate state agency to offer the program (if the state licenses individual programs at postsecondary institutions).

A school's eligibility extends to all eligible programs and locations that were identified on the school's application for participation, unless the Department determines that certain school programs or locations did not meet the eligibility requirements. In general, the school's eligible non-degree programs and locations are specifically named on the approval notice (Eligibility and Certification Approval Report [ECAR]). Additional locations and programs may be added later (see Chapter 10).

If a program offered through telecommunications or continuing education meets the definition of an eligible program, students enrolled in that program must be considered for SFA Program assistance on the same basis as students enrolled in other eligible programs that are offered through traditional modes.

It is not uncommon for a school to offer programs that meet different eligible program definitions. For example, a school that offers a bachelor's degree program (qualifying the school as an institution of higher education) may *also* offer a nondegree training program that is eligible under a definition that qualifies the school as a postsecondary vocational institution.

Institution of Higher Education

A school qualifies as an institution of higher education if (in addition to meeting all other eligibility requirements, including being a nonprofit school) it offers a program that leads to an associate, bachelor's, professional, or graduate degree. For such programs, there are no minimum program length requirements.

A school may also qualify as an institution of higher education if it offers a program of at least two academic years in duration that is acceptable for full credit toward a bachelor's degree, or if it offers a program of at least one academic year in duration that leads to a certificate, degree, or other recognized credential and prepares students for gainful employment in a recognized occupation.

Proprietary or Postsecondary Vocational Institution

There are three types of eligible programs that will qualify an otherwise eligible school as a proprietary institution or a postsecondary vocational institution. All of these programs are required to have a specified number of weeks of instruction, and must provide training that prepares a student for gainful employment in a recognized occupation.

Undergraduate Programs

The first type of eligible program is one that must provide at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks of instruction. The program may admit as regular students persons who have not completed the equivalent of an associate degree.

Shorter Programs

The second type of eligible program is one that must provide at least 300 clock hours, 8 semester hours, or 12 quarter hours of instruction offered during a minimum of 10 weeks of instruction. The program must be a graduate or professional program or must admit as regular students only persons who have completed the equivalent of an associate degree.

"Short-term" Programs

The third type of program is known as the "short-term program." A short-term program qualifies for the FFEL and Direct Loan programs only. A short-term program must provide at least 300 but less than 600 clock hours of instruction offered during a minimum of 10 weeks of instruction. The program must admit as regular students some persons who have not completed the equivalent of an associate degree. These programs must also satisfy the qualitative factors for completion rates, placement rates, program length, and period of existence of the program. Specifically, these programs must:

- have verified completion and placement rates of at least 70%,
- not be more than 50% longer than the minimum training period required by the state (or federal agency), if any, for the occupation for which the program of instruction is intended, and
- have been in existence for at least one year.

For the purpose of demonstrating compliance with these qualitative factors, a school must calculate the completion and placement rates for the award year, as explained later. The CPA who prepares the school's compliance audit report must attest to the

Recognized Occupation

A "recognized occupation" is one that is listed in the "occupational division" of the Dictionary of Occupational Titles (published by the U.S. Department of Labor) or one that is considered by the Department, in consultation with the Department of Labor, to be a recognized occupation.

accuracy of the school's calculation of completion and placement rates.

Completion Rate Calculation

Number of regular students who received credential for successfully completing the program within 150% of the length of the program

Number of regular students enrolled for the year
− number of regular students who withdrew with a 100% refund
− number of regular students enrolled at the end of the year

* less any permitted administrative fee

Placement Rate Calculation

Number of students who obtained employment* within 180 days of receiving credential, and who are employed (or have been employed) for at least 13 weeks following receipt of credential

Number of students who received credential for successfully completing the program

* in the recognized occupation for which they were trained or in a related comparable occupation

The school must document the employment of any student it includes as "employed" in the placement rate calculation. Examples of such documentation include, but are not limited to, a written statement from the employer, signed copies of state or federal income tax forms, or written evidence of payments of Social Security taxes.

The school must reasonably determine whether a related occupation is comparable. For instance, for a student who was trained as an auto mechanic, it is reasonable to determine that a job as a boat mechanic is comparable. However, for a person trained in retail sales management, a counter-service job at a fast-food restaurant is not comparable.

Exceptions to Eligible Program Definition

Note that there are two cases (certain types of preparatory coursework and teacher-certification programs) where students may receive FFEL or Direct Loan funds for enrollment in a program that does not meet the eligible program definition. (For more information, see the *SFA Handbook: Student Eligibility.*)

WEEKS OF INSTRUCTION AND THE 12-HOUR RULE

The three types of eligible programs discussed above, which qualify an otherwise eligible school as a proprietary institution or as a postsecondary vocational institution, are required to have a specified number of weeks of instruction. Definitions for a "week of instruction" and for a "week of instructional time" for the academic year definition are similar. (See the discussion of academic year in Chapter 2.)

Week of Instruction

For all programs except those measured in credit hours without standard terms (semesters, trimesters, or quarters), a "week of instruction" is any seven-day period in which at least one day of regularly scheduled instruction, examination, or preparation for examinations occurs.

Instruction does not include periods of orientation, counseling, vacation, or other activity not related to class preparation or examination.

For educational programs measured in credit hours without standard terms, a week of instruction must include at least 12 hours of instruction, examinations, or preparation for examination within a consecutive seven-day period.

Minimum Weeks and Hours

The 12-hour rule in effect requires a school to demonstrate that certain programs have not only a minimum number of weeks, but also a minimum number of hours. For example, in order for a program to meet the eligible program definition that requires at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of instruction, examinations, or preparation for examinations offered during a minimum of 15 weeks of instruction, the program must meet for a minimum of 15 calendar weeks over which a minimum of 180 hours of instruction, examinations, or preparation for examinations occur (12 hours of instruction, examinations, or preparation for examinations for 15 calendar weeks).

A school that wants to set its program to be only 15 calendar weeks long would therefore have to meet an average of 12 hours per week for the 15 calendar week period in order for the program to be eligible. A school with a program that meets less frequently than 12 hours a week would have to meet for enough weeks to provide 180 hours of instruction, examinations, or preparation for examinations. For example, a program meeting 6 hours per week would have to be 30 calendar weeks long in order to be eligible under this provision.

Treatment of Holidays

Because the 12-hour rule does not require a school to offer instruction, examinations, or preparation for examinations on specific days, an institution may not include a holiday for these calculations unless regularly scheduled instruction, examinations, or preparation for examinations occurs on that day.

ADDITIONAL ELIGIBLE PROGRAM REQUIREMENTS

Several SFA Programs have additional requirements that an educational program must meet to be eligible. For example, only undergraduate educational programs are eligible under the Pell Grant and FSEOG programs. Further, correspondence programs are not eligible unless they meet the general requirements for an eligible program and are required for the student's regular program of study.

leading to a degree. As discussed earlier in this Chapter, certain telecommunications courses may be considered correspondence courses and therefore may be subject to the same requirements.

ESL Programs

A program that consists solely of English as a Second Language (ESL) instruction is eligible only for Pell Grant participation. It must meet the general requirements for an eligible program (for example, it must lead to a degree or other credential) and may admit only students who need instruction in English to be able to use the knowledge, training, or skills they already have. The school must document its determination that the ESL instruction is necessary for each student enrolled. A school may request an eligibility determination from the Department for an ESL Program.

A student also may receive SFA Program funds for ESL coursework that is part of a larger eligible program. In this case, the ESL coursework is treated as remedial coursework. For more information, see the SFA *Handbook: Student Eligibility.*

Study Abroad Programs

Study abroad courses are eligible for SFA Program funds, regardless of whether they are required for the student's program of study, as long as they are accepted for credit in the student's program (provided that the requirements meet the consortium and contractual requirements discussed in Chapter 9). The law also requires schools to notify study-abroad students of the availability of such assistance and to certify on the new Program Participation Agreement that they will not deny SFA funds to such students.

Flight Schools

Under the FFEL Programs, a flight school program must maintain current valid certification by the Federal Aviation Administration to be eligible.

CLOCK HOUR/CREDIT HOUR CONVERSIONS

The clock hour/credit hour requirements affect both program eligibility and the determination of the amount of SFA Program funds a student who is enrolled in the program may receive.

Schools must determine whether an undergraduate program measured in credit hours qualifies as an eligible program in credit hours *for SFA purposes* after using the required conversion formula unless:

- the program is at least two academic years in length and provides an associate, bachelor's, or professional degree (or a degree that the Department has determined to be equivalent to one of these degrees), or

- each course within the program is acceptable for full credit toward one of these degrees at the school, and the degree requires at least two academic years of study.

Note that the exemption for programs that lead to a degree that is equivalent to an associate, bachelor's, or professional degree program of at least two years does not permit a school to ask for a determination that a *nondegree* program is equivalent to a degree program.

Also, public or private nonprofit hospital-based diploma schools of nursing are exempt from using the clock-to-credit hour conversion formula to calculate awards for the SFA Programs.

To determine the number of credit hours in a program for SFA purposes, schools must use the appropriate formula:

For a semester or trimester hour program:

$$\frac{\text{Number of clock hours in the credit-hour program}}{30}$$

For a quarter hour program:

$$\frac{\text{Number of clock hours in the credit-hour program}}{20}$$

The school must use the resulting number of credit hours to determine if a program is eligible under the eligible program requirements explained on pages 12 to 14. For a program to qualify as eligible by providing at least 16 semester or trimester credit hours or 24 quarter credit hours, the program must include at least 480 clock hours of instruction. For a program to qualify as eligible by providing at least 8 semester or trimester credit hours or 12 quarter credit hours, the program must include at least 240 clock hours of instruction.

Because the results of these formulas determine the eligibility of a program, the resulting number of credit hours may not be rounded upward.

If a school applies the appropriate formula and finds that a program is eligible, the converted credit hours are used to determine the amount of SFA funds that a student who is enrolled in the program is eligible to receive under the Pell Grant, FFEL, and Direct Loan programs. If, after applying the formula, the number of credit hours in the program has decreased, a student's enrollment status could change resulting in a decrease in SFA eligibility under these programs.

A student's period of attendance is measured according to several commonly accepted academic standards. A clock hour is based on an actual hour of attendance, though each hour may include a 10-minute break. Credit hours are typically based on two hours of homework for each hour of class attendance.

Clock Hour/Credit Hour Conversion Example

Sandwing University (SU) states that a two-year nondegree program measured in semester credit hours is 16 credit hours per semester. Courses within the program are not creditable toward a degree at SU. SU determines that there are 330 clock hours in the first and second semesters, and 390 in the third and fourth semesters. By applying the conversion formula, the school determines that the number of credit hours for SFA purposes is 11 for the first two semesters, and 13 for the last two semesters.

$\frac{330 \text{ clock hours}}{30}$ = *11 credit hours*

$\frac{390 \text{ clock hours}}{30}$ = *13 credit hours*

Total clock hours in the program is 1440. Because the program is longer than 15 credits and contains more than 900 clock hours of instruction, the program remains an eligible program, provided it is otherwise eligible (see page 12). However, for the first two semesters of the program, students are eligible for payment for only 11 credit hours of instruction. Because this is less than the full-time student minimum of 12 credit hours, students who attend the first two semesters are eligible to be paid for only three-quarter time attendance.

Foreign Medical School Cites
Sec. 102(a)(2)

Foreign Medical School
A school that is not located in a state, and is qualified and listed as a medical school on the most current World Directory of Medical Schools, published by the World Health Organization (WHO).

A school is not permitted to count more than one clock hour per 60-minute period; in other words, a school may not schedule several hours of instruction without breaks, and then count clock hours in 50-minute increments. The result would be that seven hours of consecutive instruction would count as 8.4 clock hours (420 minutes ÷ 50 minutes = 8.4 hours). Seven real-time attendance hours may not count for more than seven clock hours.

FOREIGN SCHOOLS ELIGIBLE FOR FFEL PROGRAMS

Amendments of 1998

In general, by law, a foreign school can participate in the FFEL Programs if the foreign school is comparable to an institution of higher education (as defined earlier in this section) and has been approved by the Department. Additionally, the regulations added specific requirements for foreign medical schools. The Amendments of 1998 modify the foreign medical school provisions to apply the requirements to foreign veterinary schools.

Foreign Medical Schools

To be eligible for FFEL participation, a foreign medical school must meet the same requirements as other foreign schools and must also:

- provide, and require its students to complete, a medical program of clinical and classroom instruction not less than 32 months long that is supervised closely by members of the school's faculty and that is provided either:
  - Outside the U. S., in facilities adequately equipped and staffed to afford students comprehensive clinical and classroom medical instruction, or
  - In the U. S., through a training program for foreign medical students that has been approved by all medical licensing boards and evaluating bodies whose views are considered relevant by the Department.
- have graduated classes during each of the two years preceding the school's application for eligibility;
- for the above mentioned medical program, employ only faculty members whose credentials are equivalent to the credentials of faculty teaching similar courses in U. S. medical schools; and
- for a public or private nonprofit school, be accredited by a recognized agency, or for all other schools, by an authorized agency whose standards have been determined by a panel approved by the Department to be comparable to U. S. standards of accreditation for medical schools.

In addition, the law specifies the following requirements for foreign medical schools

- at least 60% of the full-time regular students enrolled in the previous year and 60% of the most recent graduates must be other than U.S. citizens or nationals, permanent residents, or eligible noncitizens of the United States, and

- at least 60% of the students and graduates (for the past three years) who took any step of an exam from the Educational Commission for Foreign Medical Graduates (ECFMG)—including the ECFMG English test—in the previous year must have received a passing score.

A school not meeting all the 60 percent requirements can still be eligible if

- the school's clinical training program was approved by a state as of January 1, 1992 and is currently approved; or

- the school's students complete their clinical training at an approved veterinary school located in the United States (this provision was added by the Amendments of 1998).

Amendments of 1998

Continued eligibility is dependent upon annual submission of the data and information that demonstrates compliance with these 60% requirements (or the exception).

REPORTING INFORMATION ON FOREIGN SOURCES

The law requires certain postsecondary schools (whether or not the school is eligible to participate in the SFA Programs) to report ownership or control by foreign sources. The law also requires these postsecondary schools to report contracts with, or gifts from the same foreign source that, alone or combined, have a value of $250,000 or more for a calendar year. These reports must be filed with the Department by the January 31 or July 31 (whichever is sooner) after the date of receipt of the gifts, date of the contract, or date of ownership or control. The January 31 report should cover the period July 1-December 31 of the previous year, and the July 31 report should cover January 1-June 30 of the same year.

Who Must Report?

A school (and each campus of a multicampus school) must report this information if the school

- is legally authorized to provide a program beyond the secondary level within a state,

- provides a program for which it awards a bachelor's degree or a more advanced degree, or provides at least a two-year program acceptable for full credit toward a bachelor's degree,

Contract:

Any agreement for the acquisition by purchase, lease, or barter of property or services for the direct benefit or use of either of the parties.

Gift:

Any gift of money or property.

Restricted or conditional gift or contract:

Any endowment, gift, grant, contract, award, present, or property of any kind which includes provisions regarding

- *the employment, assignment, or termination of faculty;*
- *the establishment of departments, centers, research or lecture programs, or new faculty positions;*
- *the selection or admission of students; or*
- *the award of grants, loans, scholarships, fellowships, or other forms of financial aid restricted to students of a specified country, religion, sex, ethnic origin, or political opinion.*

- is accredited by a nationally recognized accrediting agency, and

- is extended any federal financial assistance (directly or indirectly through another entity or person), or receives support from the extension of any federal financial assistance to the school's subunits.

Contents of Disclosure Report

Each disclosure report to the Department must contain

- for gifts received from or contracts entered into with a foreign source other than a foreign government, the aggregate dollar amount of the gifts and contracts attributable to a particular country;[1]

- in the case of a school that is owned or controlled by a foreign source, the identity of the foreign source, the date on which the foreign source assumed ownership or control, and any changes in program or structure resulting from the change in ownership or control;

- for gifts received from or contracts entered into with a foreign government, the aggregate amount of the gifts and contracts received from each foreign government;

- for restricted or conditional gifts received from or restricted or conditional contracts entered into with a foreign source (other than a foreign government), the amount, date of receipt of the gift or date of the contract, and description of the conditions and restrictions;

- for restricted or conditional gifts received from, or restricted or conditional contracts entered into with a foreign government, the amount, the date of receipt of the gift or date of the contract, a description of the conditions or restrictions, and the name of the foreign government.

Alternative Reporting

In lieu of the reporting requirements listed above:

- If a school is in a state that has substantially similar laws for public disclosure of gifts from, or contracts with, a foreign source, a copy of the report to the state may be filed with the Department. The school must provide the Department with a statement from the appropriate state official indicating that the school has met the state requirements.

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[1] The country to which a gift or a contract is attributable is the country of citizenship, or, if unknown, the principal residence for a foreign source who is a "natural person" and the country of incorporation, or, if unknown, the principal place of business for a foreign source which is a legal entity.

- If another department, agency, or bureau of the Executive Branch of the federal government has substantially similar requirements for public disclosure of gifts from, or contracts with, a foreign source, the school may submit a copy of this report to the Department.

Where to Send Reports

Reports should be sent to the Department's Institutional Participation and Oversight Service at one of the addresses on page 9. Submissions should be marked "Foreign Gift Report."

If a school fails to comply with the requirements of this law in a timely manner, the Department is authorized to undertake a civil action in federal district court to ensure compliance. Following a knowing or willful failure to comply, a school must reimburse the Treasury of the United States for the full costs of obtaining compliance with the law.

All information provided by schools under this law is open to inspection and duplication by members of the public.

SOLOMON-POMBO AMENDMENT

"Dear Colleague" Letter GEN-98-3, published in January 1998 informed schools of the effect of the Solomon-Pombo Amendment on the SFA Programs.

The "Solomon-Pombo Amendment" was enacted on September 30, 1996, as part of the Omnibus Consolidated Appropriations Act, 1997 (Public Law 104-208). This amendment provides that federal funds cannot be provided by contract or by grant to schools that have been found to have denied or restricted access to military recruiters, or have denied or restricted the establishment, maintenance or efficient operation of a Senior Reserve Officer Training Corps (ROTC) unit. The Amendment is effective as of federal fiscal year 1997.

Currently, of the SFA Programs, only the campus-based programs are affected by the Solomon-Pombo Amendment. The other SFA Programs are not considered grants or contracts to a school and, therefore, are not affected.

The Solomon-Pombo Amendment applies to any domestic college, university, or other school, providing postsecondary courses of study, including foreign campuses of such school.

The Department of Defense (DoD), not the Department of Education, determines whether a school has denied access. DoD published an interim rule in the Federal Register on April 8, 1997 (62 Fed. Reg. 16691) to implement the Solomon-Pombo Amendment.

A more complete discussion of the Solomon-Pombo Amendment is included in the *SFA Handbook: Campus-Based Programs Reference*.

General Participation Requirements

CHAPTER 2

A school that participates in the SFA Programs must meet certain requirements for participation. Participation standards are important because all SFA funds received by a participating school are held in trust by that school for the intended student beneficiaries (except for allowed administrative expense reimbursement). This chapter explains many of the institutional participation requirements. Additional specific participation standards are discussed in the following chapters.

If the Department determines that a school has met the eligibility requirements (discussed in Chapter 1), it then evaluates the school's financial responsibility and whether the school is administratively capable of providing the education it promises and of properly managing the SFA Programs. These evaluations are used to determine whether the school may be certified for participation in the SFA Programs. For more information on administrative capability and financial responsibility, see Chapters 3 and 4, respectively.

Program Participation Agreement Cites
Sec. 487, 34 CFR 668.14

Once a school is certified by the Department to participate in the SFA Programs, it is bound by the requirements of those programs. To begin its participation, a school must enter into a program participation agreement.

THE PROGRAM PARTICIPATION AGREEMENT

An eligible school must enter into a Program Participation Agreement (PPA) with the Department to participate in the following programs: Pell Grant, Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), Federal Perkins Loan (Perkins), and Federal Family Education Loan (FFEL). Currently, a school that participates in the Direct Loan Program does so through an addendum to the PPA.

Purpose and Scope of the PPA

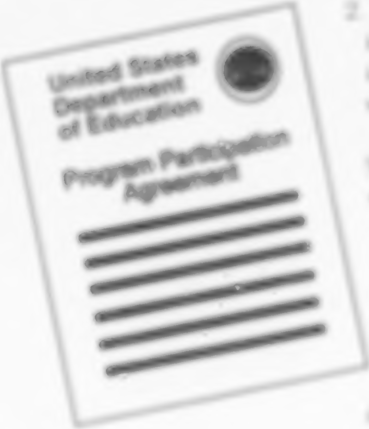
Under the PPA, the school agrees to comply with the laws, regulations, and policies governing the SFA Programs. After being certified for SFA Program participation, the school must administer SFA Program funds in a prudent and responsible manner. Under certain circumstances, for example, when a school stops providing education, a school's PPA automatically terminates (for more information, see Chapter 11.)

PPA Requirements

The PPA lists some of the basic administrative requirements of SFA participation. Some of these are discussed in more detail in this or other areas of this Handbook, as noted below:

1. The school will provide timely information on its administrative capability and financial responsibility to the Department, and to the appropriate state, guaranty, and accrediting agencies. (Chapters 3 and 4)

2. If the school advertises job placement rates to attract students, it must provide a prospective student with any relevant information on state licensing requirements for the jobs for which the offered training will prepare the student.



3. The school cannot deny SFA funds on the grounds that a student is studying *abroad* in an approved-for-credit program. (Chapter 9)

4. To begin participation in the FFEL Programs (or if a school changes ownership or changes its status as a parent or subordinate institution), the school must develop a default management plan for approval by the Department and must implement the plan for at least two years. (Chapter 3 and SFA *Handbook Direct Loan and FFEL Programs Reference*)

Amendments of 1998

The Higher Education Amendments of 1998, Public Law 105-244 (the Amendments of 1998) provide that a school is exempt from submitting a default management plan if (a) the parent institution and the subordinate institution both have a cohort default rate of 10 percent or less and (b) the new owner of the parent or subordinate institution does not own, and has not owned, any other school with a cohort default rate over 10 percent.

5. The school must acknowledge the authority of the Department and other entities to share information regarding fraud, abuse, or the school's approval to participate in the SFA Programs. (Chapter 11)

6. The school may not knowingly employ or contract with (in the administration of or receipt of SFA funds) any individual, agency, or organization that has been convicted of or pled guilty or nolo contendere to a crime or was judicially determined to have committed fraud involving the misuse of SFA funds.

7. The school must, in a timely manner, complete surveys under the Integrated Postsecondary Education Data System (IPEDS) or any other data collection effort of the Department.

8. The school cannot penalize in any way a student who is unable to pay institutional costs due to compliance with the SFA Program requirements, or due to a delay in federal aid disbursement caused by the school.

9. The school cannot pay, nor contract with any entity that pays, commissions or other incentives based directly or indirectly on securing enrollment or financial aid (except when recruiting foreign students ineligible for SFA Program funds) to persons engaged in recruiting, admission, or financial aid administration.

10. The school must comply with the requirements of the Department, as well as those of accrediting agencies. (Chapter 1)

11. The school must comply with the requirements for the return of funds when a student withdraws. (Chapter 6)

12. Schools cannot charge for processing or handling any application or data used to determine a student's SFA eligibility. For instance, the school may not charge (or include in the student's cost of attendance) a fee to certify a loan application, complete a deferment form, process a Pell Grant payment, verify an application, or send or request a financial aid transcript.

13. A student may always use the Free Application for Federal Student Aid (FAFSA) to apply for SFA Program funds. However, a school may require additional data that are not provided on the federal form to award institutional or state aid. Institutional charges for collecting such data must be reasonable and within marginal costs.

Amendments of 1998

The Amendments of 1998 moved and slightly modified the specific requirements for reporting data concerning athletically related student aid that were found in the Program Participation Agreement section of the law to the Equity in Athletics Disclosure Act (EADA) section of the law (see Chapter 7 for more information). The PPA requirements now state that a school must comply with the EADA reporting requirements.

Amendments of 1998

The Amendments of 1998 added a new PPA requirement. The new provision requires a school to make a good faith effort to distribute voter registration forms unless the school is located in a state that has in effect the motor vehicle voter registration provision of the National Voter Registration Act. Schools are to request the forms from the state. A school must make an effort to distribute the forms to each student attending the school, and must make the forms widely available to students. Members of the Executive Branch (e.g., the Department) are prohibited from instructing schools concerning the implementation of these provisions.

The above list is not exhaustive; schools must carefully review all of the requirements listed on their PPA and those specified in 34 CFR 668.14. In addition, a school must meet any requirements for participation specific to an individual SFA Program.

GED Preparatory Program Required

Another participation requirement found in the PPA requires a school that admits students without a high school diploma or its recognized equivalent (based on their ability to benefit) to make a GED preparatory program available to its students. The course does not have to be provided by the school itself, and the school is not required to pay the costs of the program. The GED program must be offered at a place that is convenient for the students and the school must take reasonable steps to ensure that its students have access to the program, such as coordinating the timing of its program offerings with that of the GED program. The school must provide information about the availability of the GED program to affected students. The GED program must be proven successful in preparing its students to obtain a GED—such programs include GED programs that are conducted by state and local secondary school authorities, as well as programs for which the school has documentation that statistically demonstrates the success.

The law does not require a school to verify that a student is enrolled in a GED program or to monitor the student's progress in the program. A student admitted based on his or her ability to benefit who does not have a high school diploma or its recognized equivalent is not required by law to enroll in a GED program, but the school may choose to make this an admissions requirement. A student may not receive SFA Program funds for the GED program although he or she may be paid for postsecondary courses taken at the same time as the GED coursework, including remedial coursework[1] at the secondary level or higher.

Civil Rights and Privacy Requirements

When a school signs the PPA, it also agrees to comply with the civil rights and privacy requirements contained in the Code of Federal Regulations (CFR), which apply to all students in the educational program, not just to SFA recipients.

PROJECT EASI

Project EASI (Easy Access for Students and Institutions) is an initiative of the Department to pursue a collaborative effort among a diverse group of government, business, and educational leaders to reengineer the postsecondary student aid delivery system to meet the needs of its primary customers, the students and their families. Many of the initiatives of Project EASI, such as a definition of a common payment period for all SFA Programs and the required use of the Department's electronic services by schools, will affect the participation of schools.

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[1] It is the school's responsibility to determine whether a remedial program is at the secondary level. However, if the state, the school's accrediting agency or the state agency recognized for the approval of public postsecondary vocational education determines that a remedial program is at the elementary level, the school must abide by that determination. For more on remedial coursework, including the admission of ability to benefit students, see the SFA Handbook: Student Eligibility.

The reengineered delivery system will meet the needs of students and their families by providing an integrated system to facilitate the ability of students and their families to plan for postsecondary education, choose among postsecondary educational programs and schools, and finance their choices. This integrated system will be available for all users of the delivery system including students and their families, state agencies, and others. Project EASI will reduce delivery system costs to all participants, reduce burden (including regulatory burden), reduce fraud and system vulnerability, and enhance management capabilities of the Department and other users of the system, including schools and states.

The following key elements will be part of a reengineered student aid delivery system:

- Every student will have his or her individual student account. The individual student account will contain all the student's data in the system, and all activity in the system concerning the student will be processed through his or her individual student account. Individual student accounts will be the basis for integrating the delivery system.

- A student will be able to provide current information to, and receive current information from, all system users (for example, his or her school) through his or her individual account.

- The data in the individual student accounts will reflect standardized data definitions for all system users, and data reported using common reporting records.

- The delivery system will not be program specific; it could be used to deliver funding under any student assistance program.

- To the extent practicable, the delivery system will use advanced technology to automate data processing and will be a paperless system.

- Strict security, such as encryption and controlled access to the data, will be designed as part of the system.

Additional information, including a more detailed description of Project EASI, can be found at http://easi.ed.gov on the Project EASI World Wide Web home page.

DEFINITION OF A PAYMENT PERIOD

There is one definition of a payment period that is applicable to all SFA Programs, except FWS. The common definition is integral to requirements for the administration of SFA Program funds. For example, all SFA Program disbursements must be made on a payment period basis (for more information, see Chapter 5). Note that FFEL and Direct Loan disbursements must still be made in accordance with the specific disbursement rules for those programs (see the SFA

Handbook: Direct Loan and FFEL Programs Reference for specific information on FFEL and Direct Loan disbursements).

This definition of a payment period was included in final regulations published November 29, 1996. Under the payment period definition, there are two sets of requirements: one for term-based credit hour programs, and one for nonterm credit hour programs and all clock hour programs. There is no separate definition for clock hour programs that are offered in terms.

Term-based Credit Hour Programs

For a program offered in semesters, trimesters, quarters, or other academic terms and measured in credit hours, the payment period is the term. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three substantially equal payments. This was a change for any quarter-based school that had been disbursing the loan funds for all three quarters in two disbursements.

Term-Based Credit Hour Programs

Program offered in...	*Payment Period is...*
● semester	● semester
● trimester	● trimester
● quarter	● quarter
● other academic term	● other academic term

Programs that are offered in modules are not counted as programs measured in terms. The phrase "other academic terms" (also known as nonstandard terms) refers to those structured educational intervals at a school that do not fit into a normally defined semester, trimester, or quarter term. For example, other academic terms could include six five-week terms.

Nonterm Credit Hour Programs and Clock Hour Programs

Payment periods for programs measured in credit hours without terms and all clock hour programs vary depending on whether the length of the program is:

- one academic year or less,
- a multiple of a full academic year,
- longer than an academic year with a remainder shorter than or equal to one half of an academic year, or
- longer than an academic year with a remainder shorter than an academic year but longer than one half of an academic year.

Programs of an Academic Year or Less

If the program is an academic year or less in length, the first payment period is the period of time in which the student completes the first half of the program, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the program as measured in credit or clock hours.

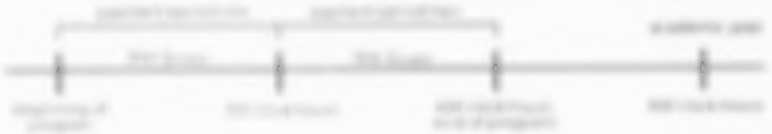
Nonterm Credit Hour Programs and All Clock Hour Programs of One Academic Year or Less

First payment period	Second payment period
● period of time in which student completes first half of the program	● period of time in which student completes remainder of the program

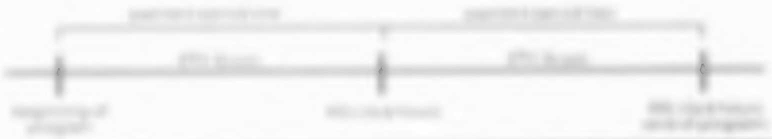
For example, if a program is 600 clock hours and the academic year is defined as 900 clock hours, the first payment period is the period of time needed for the student to complete the first 300 clock hours. The second payment period would be the period of time needed for the student to complete the last 300 clock hours (see example one below). If the program was equal to the academic year (900 clock hours), the first payment period would be the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the second 450 clock hours (see example two below).

One Academic Year or Less Example

1


payment period one
payment period two
academic year
300 hours
300 hours
beginning of program
300 clock hours
600 clock hours (end of program)
900 clock hours

2


payment period one
payment period two
450 hours
450 hours
beginning of program
450 clock hours
900 clock hours (end of program)

Programs of Multiples of an Academic Year

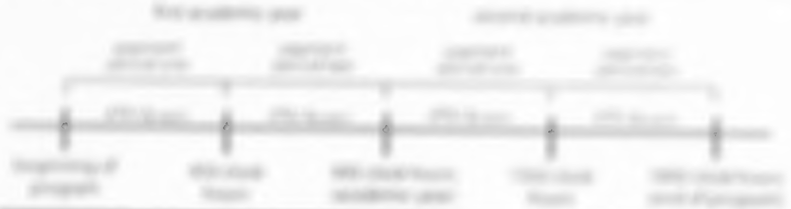
If the program is equal to two or more complete academic years, for the first academic year and any subsequent academic year, the first payment period is the period of time in which the student completes the first half of the academic year, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the academic year as measured in credit or clock hours.

Payment Periods for Nonterm Credit Hour Programs and All Clock Hour Programs Longer Than One Academic Year

Program length	First and subsequent full academic years		Remainder of program	
	First payment period	Second payment period	First payment period	Second payment period
Multiples of an academic year	period of time in which student completes first half of academic year	period of time in which student completes second half of academic year	N/A	N/A
Longer than academic year, remainder shorter than or equal to one half an academic year	period of time in which student completes first half of academic year	period of time in which student completes second half of academic year	period of time in which student completes remainder of program	N/A
Longer than academic year, remainder shorter than academic year but longer than half an academic year	period of time in which student completes first half of academic year	period of time in which student completes second half of academic year	period of time in which student completes first half of remainder of the program	period of time in which student completes second half of remainder of the program

For example, if a program is 1800 clock hours and the academic year is defined as 900 clock hours, the first payment period for both the first and subsequent academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the next 450 clock hours (see example below).

Multiples of an Academic Year Example

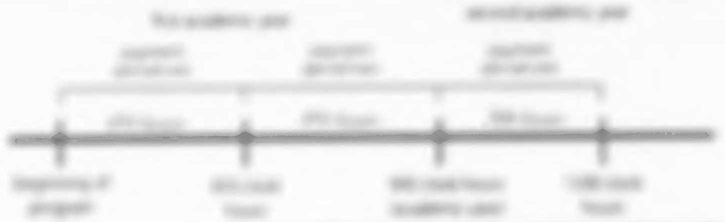

first academic year
second academic year
payment period one
payment period two
payment period three
payment period four
450 hours
450 hours
450 hours
450 hours
beginning of program
450 clock hours
900 clock hours academic year
1350 clock hours
1800 clock hours end of program

Programs Longer than an Academic Year with a Remainder

If the program is longer than an academic year but has a remaining portion of the program that is not equal to an academic year, for the first academic year and any subsequent full academic year, the first payment period is the period of time in which the student completes the first half of the academic year, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the academic year as measured in credit or clock hours. For the remaining portion of the program, if the remainder is equal to or shorter than one half of an academic year, the payment period is the remaining portion of the program.

For example, if a program is 1200 clock hours and the academic year is defined as 900 clock hours, the first payment period for the first academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the next 450 clock hours. The first, and only, payment period for the second academic year is equal to the remaining portion of the program (see example below).

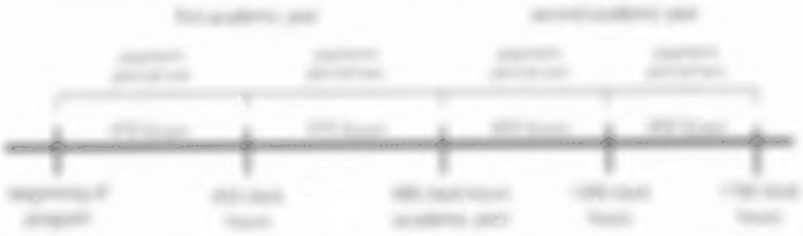
Remainder Equal To or Shorter Than Half an Academic Year Example


first academic year
second academic year
payment period one
payment period two
payment period one
450 hours
450 hours
300 hours
beginning of program
450 clock hours
900 clock hours (academic year)
1200 clock hours

If the remaining portion of the program is more than one half of an academic year, but less than a full academic year for the remaining portion of the program the first payment period is the period of time in which the student completes the first half of the remaining portion of the program, as measured in credit or clock hours. The second payment period is the period of time in which the student completes the second half of the remaining portion of the program as measured in credit or clock hours.

For example, if a program is 1700 clock hours and the academic year is defined as 900 clock hours, the first payment period for the first academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the next 450 clock hours. The first payment period for the second academic year would be the period of time needed for the student to complete the next 400 clock hours. The second payment period for the second academic year would be the period of time needed for the student to complete the final 400 clock hours (see example below).

Remainder Greater Than Half an Academic Year Example


first academic year
second academic year
payment period one
payment period two
payment period one
payment period two
450 hours
450 hours
400 hours
400 hours
beginning of program
450 clock hours
900 clock hours (academic year)
1300 clock hours
1700 clock hours

If a student is enrolled in a program measured in credit hours without terms and the school does not award credits until the entire program is complete, the second payment period begins on the later of

- *the calendar midpoint between the first and last scheduled days of class of the program or academic year, or*
- *the date, as determined by the school, that the student has completed half of the academic coursework.*

Definition of Coursework

The term academic coursework does not necessarily refer to credits. It may refer to the lessons or other measures of learning within a course. For instance, for a course made up of 40 equal lessons, the student reaches the halfway point in the coursework after completing 20 lessons.

- If the student completes the first 20 lessons before the calendar midpoint of the academic year, the second payment period does not begin until the calendar midpoint.
- If the student completes the first 20 lessons after the calendar midpoint of the academic year, the second payment period does not begin until the student completes the first 20 lessons.

More than Two Payment Periods Per Academic Year

For a program measured in credit hours without terms and any clock hour program, a school may choose to have more than two payment periods per academic year. If so, the length of the payment periods must be substantially equal throughout the academic year. For example, if a school chooses to have three payment periods in an academic year, each payment period must correspond to one-third of the academic year. Each subsequent payment period cannot begin until the student completes the clock or credit hours in the previous payment period. If a school chooses to have more than two payment periods per academic year, the school must have a written policy and apply the policy to all students who are enrolled in the program affected.

ACADEMIC YEAR REQUIREMENTS

Thirty-week Minimum of Instructional Time

Every eligible program, including graduate programs, must have a defined academic year that contains a minimum of 30 weeks of instructional time. In addition, for undergraduate programs, over the minimum of 30 weeks of instructional time, a full-time student must be expected to complete at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours as appropriate. A school may determine the amount of work a full-time graduate or professional student is expected to complete over an academic year.

Determining Academic Year Length

A school may have different academic years for different programs, but must use the same academic year definition for

- calculating all SFA awards for students enrolled in a particular program, and

- all other SFA Program purposes, such as the certification of loan deferments.

To determine the number of weeks of instructional time, a school must count the period that begins on the first day of classes and ends on the last day of classes or examinations.

Definition of a Week of Instructional Time

For all programs except those measured in credit hours without standard terms, a "week of instructional time" is any seven-day period in which at least one day of regularly scheduled instruction, examination, or preparation for examinations occurs. (Instructional time does not include periods of orientation, counseling, vacation, or other activity not related to class preparation or examination.) The requirements for a "week of instructional time" are similar to those for a "week of instruction" for the eligible program definition (see the discussion of "Weeks of Instruction and the 12-Hour Rule" in Chapter 1).

The 12-hour Rule

For educational programs measured in credit hours without standard terms (semesters, trimesters, or quarters), a week of instruction must include at least 12 hours of instruction, examinations, or preparation for examinations within a consecutive seven-day period.

A school wishing to set its academic year to be only 30 calendar weeks long (a calendar week being seven consecutive days) would have to meet an average of 12 hours per week for the 30 calendar-week period. A school with a program that meets less frequently than 12 hours a week would have to meet enough calendar weeks to provide 360 hours of instruction, examinations, or preparation for examinations (30 calendar weeks x 12 hours per week) in order to have a program offered over a full academic year (equivalent to 30 weeks of instructional time).

For example, if a school wants to establish an academic year of 30 weeks of instructional time for a credit-hour, nonterm program that meets 10 hours a week, the school would need to have approximately 36 calendar weeks (36 calendar weeks x 10 hours per week = 360 hours of instruction, examinations, or preparation for examinations) in order to have the equivalent of 30 weeks of instructional time for a full academic year. Therefore, in this example, a student enrolled in this program would not be eligible to take out another Stafford Loan until he or she had completed the required amount of work and 36 calendar weeks had elapsed. A school must also use this calculation to determine when one-third and two-thirds of an academic year have occurred.

When calculating awards under the Pell Grant Program, a school must always use weeks of instructional time. However, the length of the academic year in calendar weeks will probably exceed the number of weeks of instructional time.

Because the 12-hour rule does not require a school to offer instruction, examinations, or preparation for examinations on specific days, a school may not include a holiday as a day of instruction unless regularly scheduled instruction, examinations, or preparation for examinations occurs on that day.

Reductions in Academic Year Length

The law permits schools that provide two-year or four-year associate or baccalaureate degree programs to apply to the Department if they want to establish a full academic year of less than 30 weeks of instructional time. The Department is permitted to grant a reduction in the length of an academic year to no less than 26 weeks of instructional time. If a reduction is approved, a school is permitted to have an academic year of less than 30 weeks of instructional time (but no less than 26 weeks of instructional time) without any reduction in the amount of SFA funds that a student enrolled in an eligible program is eligible to receive for an entire academic year.

A reduction is available to schools that want to begin or continue to operate with a reduced academic year on a long-term basis. This reduction must be renewed each time a school is required to apply for recertification.

When evaluating a school's application for a reduction, the Department will consider factors such as:

- the school's compliance with awarding and disbursement procedures based on the academic year requirements of the Higher Education Amendments of 1992,
- the approval of the academic year by the school's accrediting agency or state agency,
- the hours of attendance and other coursework that a full-time student is required to complete in the academic year, and
- any unique circumstances that justify granting the request.

For further details on the information required for submission of a request for a reduction, see 34 CFR 668.3.

If a school is ineligible for a reduction in the length of an academic year because of noncompliance with awarding and disbursement procedures, that school may be eligible if the school makes arrangements with the Department to recalculate awards as necessary and repay any resulting liabilities.

CONTRACTS WITH THIRD-PARTY SERVICERS

Schools are permitted to contract with consultants for assistance in administering the SFA Programs. However, the school ultimately is responsible for the use of SFA funds and will be held accountable if the consultant mismanages the programs.

Section 668.25 of the General Provisions regulations contains requirements for all participating institutions that contract with third-party servicers. As defined by regulation, a third-party servicer is an individual or organization that enters into a contract (written or otherwise) with a school to administer any aspect of the institution's SFA participation.

Examples of functions that are covered by this definition include

- processing student financial aid applications, performing need analysis, and determining student eligibility or related activities;
- certifying loan applications, servicing loans, or collecting loans;
- processing output documents for payment to students, and receiving, disbursing, or delivering SFA funds;
- conducting required student consumer information services;
- preparing and certifying requests for advance or reimbursement funding, preparing and submitting notices and applications required of eligible and participating schools, or preparing the Fiscal Operations Report and Application to Participate (FISAP); and
- processing enrollment verification for deferment forms or Student Status Confirmation Reports.

Excluded Activities

Examples of functions that are not covered by this definition include

- performing lock-box processing of loan payments;
- performing normal electronic fund transfers (EFTs);
- publishing ability-to-benefit tests;
- performing functions as a Multiple Data Entry Processor (MDE);
- financial and compliance auditing.

- mailing documents prepared by the institution, or warehousing institutional records, and
- providing computer services or software.

Employees of a School

An employee of a school is not a third-party servicer. For this purpose, an employee is one who

- works on a full-time, part-time, or temporary basis,
- performs all duties on site at the school under the supervision of the school,
- is paid directly by the school,
- is not employed by or associated with a third-party servicer, and
- is not a third-party servicer for any other school.

Requirements for Contracting with a Third-party Servicer

A school may only contract with an eligible third-party servicer, as defined by specific regulatory criteria. Under such a contract, the servicer agrees to comply with all applicable requirements, to refer any suspicion of fraudulent or criminal conduct in relation to SFA Program administration to the Department's Inspector General, and, if the servicer disburses funds, to confirm student eligibility and make required refunds.

If the contract is terminated, or the servicer ceases to perform any functions prescribed under the contract, the servicer must return all applicable SFA funds and related records to the school.

Institutional Liability

Although an eligible servicer must meet all these and other requirements, the school remains liable for any and all SFA-related actions taken by the servicer on its behalf, under the terms of the contract.

Notification of Contracts to the Department

Schools should already have notified the Department of all existing third-party servicer contracts. If a school has not notified the Department, the school must do so by providing the Department with the following information for each third-party servicer with which the school contracts: name, address, employer identification number, telephone number, fax number, and Internet address.

If a school has submitted information regarding its third-party servicers as part of an application for certification or recertification, no additional submission is required. A school is not required to notify the Department if it does not contract with any third-party servicers.

Schools are also required to notify the Department if the school enters into a new contract with a third-party servicer, the school significantly modifies a contract with an existing third-party servicer, the school or one of its third-party servicers terminates a contract, or a third-party servicer ceases to provide contracted services, goes out of business, or files for bankruptcy. Notification to the Department (which must include the name and address of the servicer and the nature of the change or action) must be made within ten days of the date of the change or action.

Copy of Third-party Servicer Contract Upon Request Cite
Sec. 498(k)

Amendments of 1998

The Amendments of 1998 make it clear that a school must provide a copy of its contract with a third-party servicer only upon request. A school is not required to submit the contract as part of the recertification process.

Additions or changes to a school's third-party servicers must be reported to the Department on Section J of the Application for Approval to Participate in Federal Student Financial Aid Programs (see Chapter 10).

ANTI-DRUG ABUSE REQUIREMENTS

The HEA requires a school to certify to the Department that it operates a drug abuse prevention program that is accessible to its students, employees, and officers. Two other laws added related requirements for postsecondary schools that receive SFA funds.

The Drug-Free Workplace Act of 1988 (Public Law 100-690) requires a federal grant recipient to certify that it provides a drug-free workplace. Because a school applies for and receives its campus-based allocation directly from the Department, the school is considered to be a grantee for purposes of the Act. Therefore, to receive campus-based funds, a school must complete the certification on ED Form 80-0013, which is part of the FISAP package (the application for campus-based funds). This certification must be signed by the school's CEO or other official with authority to sign the certification on behalf of the entire institution.

Requirements for a Drug-free Workplace

The certification lists a number of steps that the school must take to provide a drug-free workplace, including

- establishing a drug-free awareness program to provide information to employees,
- distributing a notice to its employees of prohibited unlawful activities and the school's planned actions against an employee who violates these prohibitions, and
- notifying the Department and taking appropriate action when it learns of an employee's conviction under any criminal drug statute.

A school's Administrative Cost Allowance (ACA) may be used to help defray related expenses, such as the cost of printing informational materials given to employees. For more information on ACAs, see Chapter 5.

Scope of the Act

The drug-free workplace requirements apply to all offices and departments of a school that receives campus-based funds. Organizations that contract with the school are considered subgrantees; however, only grantees are subject to the requirements of the Drug-Free Workplace Act.

Submission of Certification to the Department

The Drug-Free Schools and Communities Act (P.L. 101-226) requires a school to certify that it has adopted and implemented a program to prevent drug and alcohol abuse by its students. Unlike the annual drug-free workplace certification, a school usually will only submit this new certification to the Department once. (An exception would be a school that changes ownership.)

Distribution to Students and Staff

The drug prevention program adopted by the school must include annual distribution to all students and employees of information concerning drug and alcohol abuse as described above, except that these steps must be taken by schools that receive any federal funding and must include the school's students as well as its employees. The information that must be distributed is more specifically described in Section 8.

Development and Review of a Drug Prevention Program

A school must review its drug prevention program once every two years to determine its effectiveness and to ensure that its sanctions are being enforced. The development of a drug prevention program, although it is a condition for SFA funds, is usually an enterprise that is undertaken by the school administration at large, not by the financial aid office. The regulations originally published on this topic (August 16, 1990) were mailed to participating schools at the time; they offer a number of suggestions for developing a drug prevention program. Also, several organizations that can serve as resources are listed on the next page.

The effectiveness of a school's drug prevention program may be measured by tracking

- The number of drug and alcohol-related disciplinary actions.
- The number of drug and alcohol-related treatment referrals.
- The number of drug and alcohol-related incidents recorded by campus police or other law enforcement officials.
- The number of drug and alcohol-related incidents of vandalism.

- The number of students or employees attending self-help or other counseling groups related to alcohol or drug abuse, and

- Student, faculty, and employee attitudes and perceptions about the drug and alcohol problem on campus.

Consequences of Noncompliance

A school that does not certify that it has a drug prevention program, or that fails to carry out a drug prevention program, may lose its approval to participate in the SFA Programs. (See the regulations for details on Department sanctions and appeals procedures available to the school.)

Additional Sources of Information

The following resources are available for schools that are developing drug prevention programs.

- ***The Center for Substance Abuse Treatment and Referral Hotline:***
  Information and referral line that directs callers to treatment centers in the local community. (1-800-662-HELP)

- ***The Center for Substance Abuse Prevention Helpline:***
  A line that provides information only to private entities about workplace programs and drug testing. Proprietary and private nonprofit but not public postsecondary schools may use this line. (1-800-967-5752)

- ***The National Clearinghouse for Alcohol and Drug Information:***
  Information and referral line that distributes U.S. Department of Education publications about drug and alcohol prevention programs as well as material from other federal agencies. (1-301-468-2600)

ANTI-LOBBYING CERTIFICATION AND DISCLOSURE

In accordance with P.L. 101-121 (and regulations published December 20, 1989), any school receiving more than $100,000 for campus-based Programs must provide the following to the Department for each award year:

- Certification Form (Combined with Debarment and Drug-Free Workplace certifications, ED-80-0013). The school will not use federal funds to pay a person for lobbying activities in connection with federal grants or cooperative agreements. This certification must be renewed each year for your school to be able to draw down campus-based funds.

- Disclosure Form (Standard Form LLL.) If the school has used nonfederal funds to pay a noninstitutional employee for lobbying activities, the school must disclose these lobbying activities to the Department. The school must update this disclosure at least quarterly, when changes occur.

Both of these forms are sent to schools with the campus-based fiscal report/application (FISAP) each summer. The certification form and the disclosure form must be signed by the CEO or other individual who has the authority to sign on behalf of the entire institution. A school is advised to retain a copy in its files.

This certification primarily covers the use of the campus-based Administrative Cost Allowance (ACA). Schools may not use the ACA to pay for their membership in professional associations (such as NASFAA, NATTS, AICS, or NACUBO), regardless of whether the association engages in lobbying activities. Association membership is not a legitimate administrative cost of the SFA Programs.

The school is also responsible for payments made on its behalf, and must include the certification in award documents for any subgrantees or contractors (such as need analysis services, financial aid consultants, or other third parties paid from the ACA). See Section 3 for more information on the ACA.

Administrative Capability

CHAPTER 3

To be certified to participate in the SFA Programs, a school must demonstrate that it is administratively capable of providing the education it promises and of properly managing the SFA Programs. This chapter discusses the requirements a school must meet to demonstrate its administrative capability.

REQUIRED ELECTRONIC PROCESSES

Final regulations published November 29, 1996 added a new standard of administrative capability. To be considered administratively capable to participate in an SFA Program, a school must participate in all electronic processes that are required by the Department, if the processes are provided at no substantial charge to the school. To comply with this requirement, a school may use software provided by the Department or software developed by the school, or its vendor, in accordance with specifications provided by the Department. Alternatively, a school may meet this requirement by the use of a third-party servicer (for more information on third-party servicers, see Chapter 2).

The use of electronic processes is integral to achieving the Project EASI goal of an integrated student aid delivery system for students and schools. (For more information on Project EASI, see page 26.) The Department believes that widespread use of electronic processes will result in reduced burden on students and schools, provide a higher level of service to students, and result in improved school administration and accountability.

On September 19, 1997, the Department published a Notice in the Federal Register that identified required electronic processes for 1998 and 1999, including the system requirements for participation in the electronic processes. The Notice also listed training sessions offered by the Department to assist schools with their implementation of the required processes.

In October 1997, the Department provided additional guidance on the implementation of the electronic processes requirement, including additional information on training sessions, through the publication of Action Letter #2 (GEN-97-11).

Information from the September 19, 1997 Notice and the October 1997 Action Letter is included in this discussion.

Administrative Capability Cites
Sec. 498(d); 34 CFR 668.16

Required Electronic Processes Cite
34 CFR 668.16(o)

Notification of Hardware and Software Cite
Sec. 482(c)

The table that follows list the required electronic processes and the deadline dates for implementation. A school that fails to participate in any of these processes by the required deadline date is considered by the Department to lack administrative capability to administer the SFA Programs properly.

Required Electronic Processes and Deadline Dates

Deadline Date	*Designated Electronic Processes*
January 1, 1998	● Participation in the Title IV Wide Area Network (TIV WAN) ● For the 1998-99 Processing Year¹ and Beyond: ✓ Receipt of Institutional Student Information Records (ISIRs)² ✓ Adding your school to the Central Processing System Record (CPS) ✓ Online Access to the National Student Loan Data System (NSLDS)
July 1, 1998	● Access to the "Info for Financial Aid Professionals" website or the Student Financial Assistance Bulletin Board System (SFA BBS) ● Submission of the Application for Approval to Participate in Federal Student Aid Programs (recertification, reinstatement and changes) through the Internet ● Submission of the Fiscal Operations Report and Application to Participate (FISAP) to the Title IV Wide Area Network (TIV WAN). Diskettes will be eliminated.
July 1, 1999	● For the 1999-2000 Award year and Beyond: ✓ Report Federal Pell Grant Payments Electronically or on Magnetic Tape or Cartridge to the Title IV Wide Area Network (TIV WAN). Diskettes will be eliminated. ● Submit Student Status Confirmation Report (SSCR) data Electronically or on Magnetic Tape or Cartridge to the National Student Loan Data System (NSLDS). Diskettes will be eliminated. ● Submit Federal Perkins Loan Data Electronically or on Magnetic Tape or Cartridge to the National Student Loan Data System (NSLDS). Diskettes will be eliminated.

¹The application processing cycle lasts 18 months. For the 1998-99 award year, application processing begins in January 1998 and applications for that year will be accepted until June 30, 1999.

²The Department realizes that processing SFA Program funds upon the receipt of an ISIR, rather than the paper Student Aid Report (SAR), may be new for some schools. In order to provide these schools sufficient time to implement electronic procedures to receive ISIRs, the Department will not assess any penalties against a school that is not able to comply with this requirement on January 1, 1998. However, beginning July 1, 1998, all schools are expected to be receiving ISIRs electronically for any SFA applicant who has listed that school on the applicant's record in the central processing system (CPS). The Department will begin assessing appropriate penalties at that time for schools found not to be awarding SFA Program funds to eligible applicants based on the receipt of the ISIR.

Amendments of 1998

The Higher Education Amendments of 1998, Public law 105-244 (the Amendments of 1998) require the Department to notify, as practicable, schools, guaranty agencies, lenders, interested software providers, and, upon request, other interested parties, of software and hardware requirements by December 1 prior to the beginning of an award year.

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The Technical Specifications table provides schools with information regarding hardware and software requirements that enables them to participate in these designated electronic processes. The left column of the Technical Specifications Table provides information on the current minimum configuration needed in order for a school to maintain a basic level of electronic efficiency. The right column provides information on the configuration needed to support the electronic requirements that began in January 1999.

When reviewing these specifications, schools should be aware that capacity requirements (processor speed, RAM, hard drive storage, etc.) are greatly affected by specific factors at each school, including which EDExpress functions the school uses, number of records processed, and institutional database interfaces.

As electronic processes are announced for implementation, the Department will provide software where needed. A school is not restricted to using software provided by the Department to participate in an electronic process required by the Department. The school may also use software developed by the school or its vendor in accordance with specifications provided by the Department.

Technical Specifications

	Current Minimum Configuration (Depending Upon Volume and Choice)	*Minimum Configuration Required by January 1999*
Equipment	IBM or fully IBM compatible PC	IBM or fully IBM compatible PC
	66 MHz Processor 486DX2	166 MHz Pentium Processor or compatible
	16 MB RAM	64 MB RAM
	200 MB Hard Disk Space	4.0 GB (2.1) Hard Drive
	14,400 bps or Higher Hayes/Hayes or compatible Modem	56K Analog Modem
	3 1/2" 1.44 MB Diskette Drive	3 1/2" 1.44 MB Diskette Drive
	SVGA Monitor	SVGA Monitor
	Standard Keyboard	Windows 95 Keyboard
	Printer capable of printing on standard paper (8 1/2" x 11")	Laser printer capable of printing on standard paper (8 1/2" x 11")
	4x CD-ROM Drive with soundboard[1]	12x CD-ROM Drive with soundboard[1]
Software	MS-DOS version 6.2 or higher Windows 3.1, 3.11 or 95	32-bit operating system (Windows 95 or Windows NT 4.0)
	Internet Service Provider (ISP)[2]	Internet Service Provider (ISP)[2]
	Netscape Navigator 3.0 or 4.0 (domestic) or web browser[3]	Netscape Navigator 3.0 or 4.0 (domestic) or web browser[3]
Phone Line	Dedicated phone line	Dedicated phone line
Diskettes	3.5" high density double sided diskettes	3.5" high density double sided diskettes

[1] *Required if school wants to use the EDExpress Tutorial and the ... software.*

[2] *Needed by institutions to access the "Information for Financial Aid Professionals" website (or the Student Financial Assistance Bulletin Board System) and for submission of the Application for Approval to Participate in Federal Student Aid Programs (recertification, reinstatement and changes).*

[3] *Currently, must use Netscape Navigator 3.0 or 4.0 (domestic) in order to utilize FAFSA on the Web. The Department is currently testing other web browsers that will be made available to the public in the near future.*

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January 1, 1998 Requirements

TIV WAN Participation

As of January 1, 1998, schools are required to participate in the Title IV Wide Area Network (TIV WAN) by which Title IV program financial aid data is electronically transmitted and received between the Department and schools.

In November 1998, the Department implemented new procedures for enrolling and updating information for the TIV WAN. These new procedures are described in Action Letter #4, published in November 1998 (GEN-98-21).

Receipt of ISIRs

Beginning with the 1998-99 processing year (January 1998), schools are required to receive Institutional Student Information Records (ISIRs) either through the TIV WAN or on magnetic tape or cartridge.

Adding Your School to the Central Processing System (CPS) Record

For the effective administration of the SFA Programs and to ensure the capability for future enhancements to the delivery system, the CPS must have a complete record of all schools an applicant is considering attending. The most immediate need for this information is to allow the National Student Loan Data System (NSLDS) to inform schools of potential changes to an applicant's eligibility for Title IV aid. (For more information on the NSLDS, see the *SFA Handbook: Student Eligibility*.) Therefore, beginning with the 1998-99 processing year, a school must ensure that its Title IV school code is added to the CPS record no later than 30 days after the school receives a SAR that does not list that school.

On-Line Access to NSLDS

No later than January 1, 1998, schools must, as part of their Title IV WAN participation, have at least one staff member signed up for direct on-line access to the National Student Loan Data System (NSLDS). This access enables schools to fully utilize many of the special functions of the NSLDS. These include on-line financial aid transcripts (FATs), borrower tracking lookups, and on-line updating of Student Status Confirmation Report.

For more information on the NSLDS, see the *SFA Handbook: Student Eligibility*.

July 1, 1998 Requirements

Access to the "Information for Financial Aid Professionals" Website

Beginning July 1, 1998, schools no longer automatically receive Departmental information through the mail including most "Dear Colleague" letters, announcements, Federal Registers, etc. Instead, schools must have the capability to retrieve such documents from the

Department's Information for Financial Aid Professionals website. The specific Internet address to the website is:

http://ifap.ed.gov/

A school that uses a third-party servicer to meet this requirement needs to ensure that it is kept informed by its third-party servicer of all information posted by the Department on the IFAP website.

A school may enroll in the Department's "fax broadcast" service to receive automatically by facsimile high-priority messages from the Department. This service will be used for messages that need immediate attention. These messages will be posted on the IFAP website also. To enroll, a school may call 1-800-4FED-AID.

In order for a school to meet this requirement, as well as have the capability to submit recertification documents over the Internet, as discussed below, it must have Internet access through an Internet Service Provider, and have a World Wide Web browser (i.e., Netscape Navigator or Microsoft Internet Explorer). To download a copy of the Netscape Navigator software, the web address is http://home.netscape.com. The web address to download the Microsoft Internet Explorer software is:

http://www.microsoft.com/windows/ie/download/

Schools must have the capability to print Federal Registers or other complex documents provided in Portable Document Format (PDF). The software for viewing and printing PDF files can be downloaded onto a school's PC hard drive for free from the Adobe Systems website at http://www.adobe.com/prodindex/acrobat/readstep.html

Of course, a school may use other software to print these documents. Under the original requirement, schools were required to have access to the Student Financial Assistance Bulletin Board System (SFA BBS) in addition to the IFAP Website. However, The SFA BBS has been phased out. Information found on the SFA BBS can now be found on the IFAP Website, and the SFA BBS is no longer in operation.

Submission of the Application to Participate (Recertification) through the Internet

As of July 1, 1999, applications for recertification, reinstatement, or changes in school ownership or structure must be submitted to the Department electronically through the Internet. The Department no longer provides diskettes to schools for submission of the "Application for Approval to Participate in Federal Student Financial Aid Programs." A signature page is required and must be mailed separately along with all required supporting documentation. Schools need to have access to the World Wide Web using a forms capable web browser such as Netscape Navigator or Microsoft Internet Explorer. The web address to access the electronic application form is:

http://www.eligcert.ed.gov/

Schools must send electronic updates to their application data through the Internet. When a school accesses its application, it will be prepopulated with data from the last recertification. The school changes the necessary data items, and transmits it for Departmental review and acceptance. The Application allows for changes to telephone numbers, fax numbers, names on the application, locations, vocational programs, etc.

For more information on applying for participation in the SFA Programs or providing updated information to application data, see Chapter 10.

Submission of the FISAP through the TIV WAN

Beginning with the Fiscal Operations Report for 1997-98 and Application to Participate for 1999-2000 (FISAP) due October 1, 1998, schools are required to submit FISAP data through the TIV WAN. In the past, a FISAP could be submitted to the Department either through an electronic submission or by sending computer diskettes or magnetic tapes. The TIV WAN requirement eliminated the diskette and magnetic tape options and transferred the electronic submission to the TIV WAN.

January 1, 1999 Requirements

Windows 95, Windows NT or Higher

As a technical requirement, schools must be prepared to process Department data, starting with the 1999-2000 award year using either Windows 95, Windows NT, or a newer version of the Windows operating system. The Disk Operating System (DOS) and earlier versions of Windows are no longer supported.

Year 2000 Compliant

As of January 1, 1999, all schools must be Year 2000 Compliant with regard to the processing of financial aid data. Year 2000 Compliant means that all data processing systems, procedures, and protocols are designed to handle the upcoming change in the century by storing and reporting date data in ways that differentiate between years prior to 2000 and Year 2000 and beyond. This issue is critical because many computer systems were not designed to accommodate a four-character year. That is, they were designed to store and process data about a year using just the last two digits (i.e. 1980=80). Such conventions are no longer sufficient as we move toward the new century.

July 1, 1999 Requirements

Submission of Federal Pell Grant Payment Data

As of July 1, 1999, schools will use a new Recipient Financial Management System (RFMS) that replaces the existing Pell Grant

Recipient Financial Management System (RFMS) to report and request Federal Pell Grant student payment information.

For more information, see the Announcement Letter published July 1998 (ANN-98-8) and Action Letter #2 published in September 1998 (P-98-4).

Submission of SSCR Data to the NSLDS

Beginning July 1, 1999, schools will be required to report Student Status Confirmation Report (SSCR) data electronically or by magnetic tape. The Department will no longer accept diskette submissions.

Submission of Federal Perkins Loan Data to the NSLDS

Beginning July 1, 1999, schools will be required to report Federal Perkins Loan Data electronically or by magnetic tape. The Department will no longer accept diskette submissions of Federal Perkins Loan data.

COORDINATION OF AID

Another standard of administrative capability requires that an eligible school designate a capable individual to administer the SFA Programs and to coordinate aid from these programs with the school's other federal and nonfederal student aid programs. The school's administration must be coordinated in such a way that all the information it receives concerning a student's SFA eligibility—from any school office—is communicated to the financial aid administrator. To properly package and most effectively use the various types of student assistance (federal, school, state, private, etc.), a financial aid administrator must be aware of all sources of aid at the school and must be able to coordinate with all financial aid programs a school offers to ensure that a student's aid does not exceed his or her need.

CONSISTENCY OF STUDENT INFORMATION

The school must have a system of identifying and resolving discrepancies in the SFA-related information received by various school offices. Such a system would include a review of all financial aid and need analysis documents, federal and state income tax forms, and documents relating to admissions, citizenship, and previous educational experience. For instance, if a student receives veterans benefits through one school office, that office must notify the aid administrator of these benefits to ensure that the amounts are correctly reported on the student's aid application and are counted as a resource for the campus-based programs and estimated financial assistance for the Direct Loan and FFEL programs. In another example, the school's admissions or registrar's office must provide the financial aid office with any information that it has affecting a student's

Capable individual

An individual is "capable" if he or she is certified by the state in which the school is located, if state certification is required. Other factors include the individual's successful completion of SFA Program training provided or approved by the Department, and previous experience and documented success in SFA Program administration.

eligibility—the student's enrollment in an ineligible program, for instance, or past educational experience.

OIG REFERRALS

If the school finds that a student may have engaged in fraud or other criminal misconduct in applying for SFA Program funds, it must refer this information to the Department's Office of Inspector General (OIG), which will in turn notify other officials as appropriate. (Please note that this requirement does not preclude the school from notifying other law enforcement agencies as necessary.) Some examples of fraudulent information include the use of false identities, forgery of signatures or certifications, and false claims of income, citizenship, or independent student status.

COUNSELING

The school must provide adequate financial aid counseling to all enrolled and prospective students and their families. Counseling must include, at a minimum, information about the source and amount of each type of aid offered, the method by which aid is determined and disbursed or applied to a student's account, and the rights and responsibilities of the student associated with the student's enrollment and receipt of financial aid. This information should include a description of the school's refund policy, the requirements for the treatment of SFA Program funds when a student withdraws, satisfactory progress standards, and any other conditions or factors that may affect the student's aid package. The school must also provide entrance and exit counseling for student borrowers in the Perkins, FFEL, and Direct Loan programs. For a complete discussion of loan counseling requirements, see the *SFA Handbook: Campus-Based Program Reference*, the *SFA Handbook: Direct Loan and FFEL Programs Reference*, and Direct Loan entrance and exit counseling guides.

ADEQUATE STAFFING

To manage a school's aid programs effectively, the aid administrator must be supported by an adequate number of professional, paraprofessional, and clerical personnel. An "adequate" staff depends on the number of students aided, the number and types of programs in which the school participates, the number of applicants evaluated and processed, the amount of funds administered, and the type of financial aid delivery system the school uses. What may be adequate at one school may be completely insufficient at another. The Department will determine, on a case-by-case basis, whether a school has an adequate number of qualified persons, based on program reviews, audits, and information provided on the school's application for approval to participate in the SFA Programs.

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the SFA Programs include an adequate system of internal checks and balances. This system, at a minimum, must separate the functions of authorizing payment and disbursing or delivering funds so that no one person or office exercises both functions for any student receiving SFA funds. Small schools are not exempt from this requirement even though they may have limited staff. Individuals working in either authorization or disbursement may perform other functions as well, but not both authorization and disbursement. These two functions must be performed by individuals who are not members of the same family and who do not together exercise substantial control over the school. If a school performs any aspect of these functions via computer, no one person may have the ability to change data that affect both authorization and disbursement.

Family

A member of an individual's family is a parent, sibling, spouse, child, spouse's parent or sibling, or sibling's or child's spouse.

Substantial Control

Substantial control is direct or indirect control over at least 25% ownership interest (either alone or with family members); representation (under voting trust, power of attorney, or proxy) of a person who individually or with a group has at least 25% ownership interest; status as CEO or other executive officer or member of a board of directors of an entity holding at least 25% ownership interest.

SATISFACTORY PROGRESS AND FINANCIAL AID HISTORY

Two institutional requirements are directly related to student eligibility: satisfactory academic progress and financial aid history. An eligible school must have a policy to measure the academic progress of its students, according to the elements of a reasonable standard of satisfactory progress as provided in the regulations. In addition, when a student transfers from one school to another, the new school must receive a financial aid history for the previous schools the student has attended before it disburses Federal Pell Grant, Direct Loan, FFEL, or campus-based funds to the student or certifies a PLUS Loan application. See the *SFA Handbook:Student Eligibility* for an overview of satisfactory progress and financial aid history requirements.

DEFAULT RATES

A school is not administratively capable when

- the cohort default rate for Perkins Loans made to students for attendance at the school exceeds 15% (see Chapter 6 for details), or
- the cohort default rate for Stafford/SLS loans or for Direct Loans made to students for attendance at the school equals or exceeds 25% for one or more of the three most recent fiscal years (see Chapters 10 and 11 for details).

If a school is not administratively capable solely because of a high default rate, the Department will provisionally certify the school.

In addition to affecting a school's administrative capability and limiting the school's participation in the SFA Programs, a high default rate may make a school ineligible to participate in the FFEL, Direct Loan or Perkins programs or cause the Department to limit, suspend, or terminate a school's participation in the SFA Programs. See the *SFA Handbook: Campus-Based Program Reference* and the *SFA*

Exemption from Default Management Plan Cite
Sec. 487(a)(14)(C)

Default Rates and Pell Participation Cite
Sec. 401(j)

Enrolled
A student enrolls when he or she completes the registration requirements (except payment of tuition and fees) at the school. Correspondence students are enrolled if they have been admitted to the program and have submitted one lesson (that was completed without the assistance of a school representative).

Handbook:Direct Loan and FFEL Programs Reference for detailed information on default requirements.

Default Management Plan

In the past, a school with a Stafford/SLS default rate of specified percentages was required to implement some or all of the default reduction measures of 34 CFR Part 668, Appendix D of the General Provision regulations. Final regulations published December 1, 1995 that revised several aspects of the Department's default prevention and reduction measures removed these requirements beginning with the 1996-97 award year. However, new schools are still required to develop a default management plan prior to certification. Also, a school that undergoes a change in ownership that results in a change in control, or a school that changes its status as a main campus, branch campus, or additional location must also develop a default management plan.

Amendments of 1998

The Higher Education Amendments of 1998, Public Law 105-244 (the Amendments of 1998) provide that a school is exempt from submitting a default management plan if (a) the parent institution and the subordinate institution both have a cohort default rate of 10 percent or less and (b) the new owner of the parent or subordinate institution does not own, and has not owned, any other school with a cohort default rate over 10 percent.

Amendments of 1998

The Amendments of 1998 also added a provision that makes a school ineligible to participate in the Federal Pell Grant Program if it loses eligibility to participate in the FFEL or the Direct Loan programs due to high default rates after the publication of final default rates for fiscal year 1996, or a subsequent fiscal year. A school may appeal its default rate before its participation in Pell is eliminated.

This provision applies to schools participating in the FFEL or Direct Loan programs on October 7, 1998 (the date of enactment of the Amendments of 1998) unless an institution later participates in the loan programs.

The Amendments also make several changes to default rate requirements for the Perkins Loan Program. See the *SFA Handbook: Campus-Based Programs Reference* for more information.

WITHDRAWAL RATES

New schools (schools that seek to participate in an SFA Program for the first time) must have an undergraduate withdrawal rate for regular students of no more than 33% for an award year in order to be considered administratively capable.

When calculating the withdrawal rate, all regular, enrolled students must be included. The definition of "enrolled" does not require either payment of tuition or class attendance; therefore, the withdrawal rate calculation must include enrolled students who have not yet paid tuition or who did not actually begin attending classes. A student is considered to have withdrawn if he or she officially withdraws, unofficially drops out, or is expelled from the school or receives a refund of 100% of his or her tuition and fees (less any permitted administrative fee). A student who withdraws from one or more courses or programs, but does not withdraw entirely from the school, does not meet the definition of "withdrawn." Note that the 33% withdrawal rate applies to all enrolled, regular students—not just to SFA recipients.

DEBARMENT AND SUSPENSION CERTIFICATION

Debarment of School or its Principals

Debarment and suspension requirements are also a part of the administrative capability standards. Debarment and suspension actions are imposed against individuals who the government determines constitute a current risk to federal agencies based on the individual's actions. The Department gives effect to debarment and suspension actions by other agencies that have been imposed under procedures that provide due process protections equivalent to those afforded by the Department.

Before a school may receive Pell Grant or campus-based funding, a school must certify that neither the school nor its employees have been debarred or suspended by a federal agency. This certification is on the PPA and, for schools participating in the campus-based programs, is included on ED Form 80-0013, which is a part of the FISAP package mailed to schools each summer.

If the school or its principals have been suspended, debarred, or proposed for debarment by one federal agency, the school is no longer eligible to participate in any SFA Program. The principals of the school include the owners, the directors, officers, partners, employees, or any other person with primary management or supervisory responsibilities. A principal may also be someone who is not employed by the school, but who has critical influence on or substantive influence over a covered transaction (such as the receipt of Pell Grant or campus-based funds).

If a school discovers that a person employed in a primary management or supervisory capacity has been suspended or debarred by a federal agency, the school must remove that person from such a position or risk losing its SFA eligibility.

Similar debarment and suspension procedures apply to debarments and suspensions of lenders or loan servicers under the FFEL Programs.

Checking Prospective Employees or Contractors

To protect itself, a school might ask prospective employees and contractors about previous debarment or suspension, either in person or on a written application. A school may also call the Department to find out if an individual or organization is on the Nonprocurement List. The debarment or suspension of a person who is not a principal of the school and who does not work in the financial aid office will not affect the school's SFA eligibility, so long as that person is not involved in any covered transactions. The regulations list the particular transactions from which a debarred or suspended entity is excluded under the SFA Programs.

Lower-tier Covered Transactions

A school must not enter into lower-tier covered transactions with a debarred or suspended individual or organization. A lower-tier covered transaction is any transaction between a participant in a covered transaction (such as the school) and another individual or organization, if that transaction stems from a covered transaction. Examples of common lower-tier covered transactions are a school's contracts with a financial aid consultant service or with a loan collection or billing agency. A school must obtain a certification from any lower-tier organization if the amount of the lower-tier transaction is $25,000 or more. (The required certification clause is given on page 25 of "Dear Colleague" letter GEN-89-21.) The lower-tier organization must inform the school in writing if the organization or its principals are debarred or suspended. Therefore, the certification does not need to be renewed from year to year.

Financial Responsibility

CHAPTER 4

In this chapter, we discuss the financial responsibility requirements for all schools participating in the SFA Programs.

In order to participate in the SFA Programs, a school must demonstrate that it is financially responsible. To provide the Department with the information necessary to evaluate a school's financial responsibility, schools are required to submit financial information to the Department every year. A school must provide this financial information in the form of an audited financial statement as part of a combined submission that also includes the school's compliance audit. The combined submission must be submitted to the Department within six months of the end of the school's fiscal year. See Chapter 11 for more information on required audit submissions.

Financial Responsibility Cites
Sec. 498(c), 34 CFR 668 Subpart L

Amendments of 1998

The Higher Education Amendments of 1998, Public Law 105-244, (the Amendments of 1998) made the following changes to the financial responsibility requirements:

- The criteria used to determine the financial responsibility of a school is revised to be based on whether it meets certain ratios that demonstrate financial responsibility. Previous criteria required the Department to consider operating losses, net worth, asset-to-liabilities ratios, or operating fund deficits.
- Public schools are included with for-profit and nonprofit institutions with respect to taking into consideration differences in generally accepted accounting principles.
- The Department is permitted to determine what third-party financial guarantees are acceptable in order for a school to be considered financially responsible even though it failed to meet other mandated measures of financial responsibility.

NOVEMBER 25, 1997 FINAL REGULATIONS

NEW

A notice of proposed rulemaking (NPRM) published September 20, 1996, proposed implementation of new financial responsibility standards. In response to public comment, the comment period on some portions of the NPRM was extended through April 14, 1997.

Final regulations were published November 25, 1997. These financial responsibility requirements are applicable to schools that submit audited financial statements on or after July 1, 1998. A discussion of the provisions implemented by these final regulations is included here.

What follows is a general overview of the financial responsibility standards. Schools should refer to Subpart L of the Student Assistance General Provisions for complete information. For information regarding accounting and compliance issues, a school should contact its Case Management Team (see page 259 for contact information).

The Department determines whether a school is financially responsible based on its ability to

- provide the services described in its official publications and statements,
- administer properly the SFA program in which the school participates, and
- meet all of its financial obligations.

Under the regulations of November 25, 1997, the financial responsibility standards can be divided into two categories: (1) General standards, which are basic standards that are used to evaluate a school's financial health, and (2) Performance and affiliation standards, which are standards that are used to evaluate a school's past performance and to evaluate persons affiliated with the school.

Schools are no longer required to meet standards that apply specifically to each type of school. Instead, differences among sectors of schools (for example, proprietary, private nonprofit, and public) are taken into account by variances within a standard. This change is discussed more fully in the discussion of the new composite score standard.

GENERAL STANDARDS

Proprietary or private nonprofit institution

A proprietary or private nonprofit institution is financially responsible if the Department determines that

- the school has a composite score of at least 1.5,
- the school has sufficient cash reserves to make required refunds (these requirements are known as the "refund reserve standards"),
- the school is current in its debt payments, and
- the school is meeting all of its financial obligations, including making required refunds and making repayments to cover SFA Program debts and liabilities.

These requirements are discussed in more detail below.

Audit opinions and past performance

Even if a school meets all of the general requirements, the Department does not consider the school to be financially responsible if

- the school has a statement by the auditor in its audited financial statement expressing doubt about the continued existence of the school as a "going concern," or an adverse, qualified, or disclaimed opinion (unless the Department determines that a qualified or disclaimed opinion does not have a significant bearing on the school's financial condition), or

- the school violated one of the past performance requirements discussed below.

Composite score

NEW

In the past, a school had to meet separate tests for assessing the financial condition of the school. The school was required to meet the minimum standard for each separate test. For example, a proprietary school was required to meet an acid test ratio, and standards for tangible net worth and operating losses. A nonprofit school was required to meet an acid test ratio, and standards for measuring unrestricted fund balances or assets, or fund expenditures over fund revenues. The November 25, 1997 final regulations replaced these separate tests for proprietary and private non-profit institutions with a single standard called the composite score standard. The composite score standard combines different measures of fundamental elements of financial health to yield a single measure of a school's overall financial health. This method allows financial strength in one area to make up for financial weakness in another area. In addition, this method provides an equitable measure of the financial health of schools of different sizes.

Some aspects of the composite score methodology (for example, the calculation of ratios) vary depending on whether the school is a proprietary institution or a private non-profit institution. The variance takes into account the accounting differences between these sectors of postsecondary institutions. However, the basic steps used to arrive at the composite score are the same. For complete information on the calculation of the composite score, schools should refer to Appendices F and G of the General Provisions regulations.

The first step in calculation a school's composite score is to determine the school's primary reserve, equity, and net income ratios by using information from the school's audited financial statement in the ratios established by the Department. These ratios are used to take into account the total financial resources of the school. The primary reserve ratio represents a school's viability and liquidity. The equity ratio represents a school's ability to borrow and its capital resources. The net income ratio represents a school's profitability. Some items from a school's audited financial statement may be excluded from the calculation of the ratios. For example, the Department may exclude the effects of questionable accounting treatments, such as excessive capitalization of marketing costs, from the ratio calculations. See 34 CFR 668.172(c) for more information on possible exclusions.

A strength factor score is then calculated for each ratio using equations established by the Department. A strength factor score reflects a school's relative strength or weakness in a fundamental element of financial health, as measured by each of the ratios. Specifically, the strength factor scores reflect the extent to which a school has the financial resources to: 1) replace existing technology with newer technology; 2) replace physical capital that wears out over time; 3) recruit, retain, and re-train faculty and staff (human capital); and 4) develop new programs.

A weighting percentage is applied to each strength factor score to obtain a weighted score for each ratio. The weighting percentages reflect the relative importance that each fundamental element has for a school in a particular sector (proprietary or private non-profit).

The sum of the weighted scores equals the school's composite score. Because the weighted scores reflect the strengths and weaknesses represented by the ratios and take into account the importance of those strengths and weaknesses, a strength in the weighted score of one ratio may compensate for a weakness in the weighted score of another ratio. The example below illustrates the calculation of a composite score for a proprietary institution.

Example of a Calculation of a Composite Score for a Proprietary Institution*

Calculation of Ratios

$$\text{Primary Reserve Ratio} = \frac{\text{Adjusted Equity}}{\text{Total Expenses}} = \frac{\$760{,}000}{\$9{,}500{,}000} = 0.080$$

$$\text{Equity Ratio} = \frac{\text{Modified Equity}}{\text{Modified Assets}} = \frac{\$810{,}000}{\$2{,}440{,}000} = 0.332$$

$$\text{Net Income Ratio} = \frac{\text{Income Before Taxes}}{\text{Total Revenues}} = \frac{\$510{,}000}{\$10{,}010{,}000} = 0.051$$

Calculation of Strength Factor Score

Primary Reserve Strength Factor Score = 20 x Primary Reserve Ratio — 20 x 0.080 = 1.600

Equity Strength Factor Score = 6 x Equity Ratio — 6 x 0.332 = 1.992

Net Income Strength Factor Score = 1 + (33.3 x Net Income Ratio) — 1 + (33.3 x 0.051) = 2.698

Calculation of Weighted Score

Primary Reserve Weighted Score = 30% x Primary Reserve Strength Factor Score — 0.30 x 1.600 = 0.480

Equity Weighted Score = 40% x Equity Strength Factor Score — 0.40 x 1.992 = 0.797

Net Income Weighted Score = 30% x Net Income Strength Factor Score — 0.30 x 2.698 = 0.809

Composite Score

Sum of all weighted scores — 0.480 + 0.797 + 0.809 = 2.086 — rounded to **2.1**

*The defintion of terms used in the ratios and the applicable strength factor algorithms and weighting percentages are found in Appendix F of the General Provisions for proprietary institutions and Appendix G for private nonprofit institutions.

Once the composite score is calculated, it is measured along a common scale from negative 1.0 to positive 3.0 as indicated in the chart below. This scale reflects the degree of certainty that a school will be able to continue operations and meet its obligations to students and the Department.

Financial Responsibility Composite Score Scale

1.5 to 3.0	Financially responsible without further oversight
1.0 to 1.4	Financially responsible if meet the "zone alternative" or 50% or greater letter of credit alternative. May be permitted to participate under provisional certification with smaller letter of credit, but not considered financially responsible.*
-1.0 to .9	Financially responsible if meet the 50% or greater letter of credit alternative. May be permitted to participate under provisional certification with smaller letter of credit, but not considered financially responsible ("zone alternative" not available).*

*Transition year alternative available for one year.

Refund Reserve Standards

A school must have sufficient cash reserves to make any required refunds (see Chapter 6 for more information on refunds, including timely payment of refunds). The Department considers a school to have sufficient cash reserves if the school meets one of the following three criteria:

- satisfies the requirements of a public school (see the discussion of public schools under "General Standards"),
- is located in a state that has a tuition recovery fund approved by the Department and the school contributes to that fund, or
- demonstrates that it make its refunds timely.

A school has made its refunds timely if it can demonstrate, through audits for the two most recent fiscal years, that for the past two years the school has paid all required refunds on time.

The Department provides for a small margin of error in determining that a school has paid all required refunds on time. The Department considers a school to have paid refunds timely if

- there is less than a five percent error rate in the sample of refunds examined by a reviewer or auditor (i.e., the school failed to make timely refunds to less than five percent of the students in the sample), or
- A there is only one late refund in the sample of refunds examined by a reviewer or auditor (regardless of the percentage of refunds in the sample represented by the one late refund), and

Δ the reviewer or auditor did not note for either fiscal year a material weakness or a reportable condition in the school's report on internal controls that is related to refunds.

If a finding is made that a school no longer meets any of the three criteria for demonstrating that it has sufficient cash reserves to make any required refunds, the school must post a letter of credit equal to 25% of the total SFA Program refunds made or that should have been made by the school during its most recently completed fiscal year. The school must submit the letter of credit to the Department no later than 30 days after the school is notified of the finding, or no later than 30 days after the school's compliance audit is due, if it was the auditor that conducted the school's compliance audit who determines that the school no longer qualifies. A school must send the letter of credit to

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 23800
L'Enfant Plaza Station
Washington, DC 20026
ATTN: Director, IPOS

In addition to posting the letter of credit, if a guaranty agency or state review determines that the school no longer meets the refund reserve standard, the school must notify the Department of the guaranty agency or state that conducted the review.

When a state submits a tuition recovery fund for evaluation by the Department, the Department will consider the extent to which the recovery fund

- provides refunds to both in-state and out-of-state students,
- complies with SFA Program requirements for the order of return of refunds to sources of assistance, and
- will be replenished if any claims arise that deplete the fund.

Current in debt payments

A school is not current in its debt payments if

- it is in violation of any existing loan agreement at its fiscal year end, as disclosed in a note to its audited financial statements or audit opinion, or
- fails to make a payment in accordance with existing debt obligations for more than 120 days, and at least one creditor has filed suit to recover funds under those obligations).

Public schools

NEW!

A public school is financially responsible if its debts and liabilities are backed by the full faith and credit of the state or other government entity. The Department considers a public school to have that backing if the school notifies the Department that it is a designated as a public school by the State, local, or municipal government entity, tribal authority, or other government entity that has the legal authority to make that designation. The school must also provide the Department with a letter from an official of the appropriate government entity confirming the school's status as a public school. A letter from a government entity may include a confirmation of public school status for more than one school under that government's purview.

A public school must also meet the past performance and affiliation standards discussed below. Also, public schools are still subject to the Department's reporting requirements which require the submission of financial statements that are prepared in accordance with generally accepted accounting principles (GAAP) and on the accrual basis.

The letter is a one-time submission and should be submitted as soon as possible separately from the financial statements.

The public institution should submit the letter as follows.

If by U.S. Postal Service:

U.S. Department of Education
Institutional Participation and Oversight Service
P. O. Box 44805
L'Enfant Plaza Station
Washington, D.C. 20026-4805

If by commercial overnight mail/courier delivery:

U.S. Department of Education
Institutional Participation and Oversight Service
7th & D Streets, S.W.
GSA Building, Room 3514
Washington, D.C. 20407

ALTERNATIVES TO THE GENERAL STANDARDS

If a school does not meet the general standards for financial responsibility, the Department may still consider the school to be financially responsible or may allow the school to participate under provisional certification if the school qualifies for an alternative standard.

If the Department determines that a school that does not meet one or more of the general standards also does not qualify for an alternative, the Department may initiate a limitation, suspension, or termination action against the school (see Chapter 11 for more information).

The alternate standards were changed by the November 25, 1997 final regulations to reflect changes made to the general standards. For example, the "precipitous closure alternative" has been replaced by the "zone alternative."

LOC alternative for new school

A new school (a school that seeks to participate in the SFA Programs for the first time) that does not meet the composite score standard (i.e., has a composite score of less than 1.5), but meets all other standards, may demonstrate financial responsibility by submitting an irrevocable letter of credit to the Department. The letter of credit must be acceptable and payable to the Department and equal to at least 50 percent of the SFA Program funds that the Department determines that the school would receive during its initial year of participation.

LOC alternative for participating school

A participating proprietary or private nonprofit institution that fails to meet one or more of the general standards or isn't financially responsible because it has of an unacceptable audit opinion, may demonstrate financial responsibility by submitting an irrevocable letter of credit to the Department. The letter of credit must be acceptable and payable to the Department and equal to at least 50 percent of the SFA Program funds that the school has received during its most recently completed fiscal year.

Zone alternative

A participating school that fails to meet the composite score standard (i.e., has a composite score of less than 1.5), but meets all other standards, may demonstrate financial responsibility for up to three consecutive fiscal years if the Department determines that the school's composite score is equal to 1.0 to 1.4 for each of those years and the school meets specific monitoring requirements.

This alternative gives a school the opportunity to improve its financial condition over time without requiring the school to post a letter of credit or participate under provisional certification. Under the zone alternative, a school's operations, including its administration of the SFA Programs, are monitored more closely. If a school does not score at least 1.0 in one of the three subsequent fiscal years or does not improve its financial condition to attain a composite score of at least 1.5 by the end of the three-year period, the school must satisfy another alternative standard to continue to participate. In addition, if a school fails to comply with the information reporting or payment method requirements, the department may determine that the school no longer qualifies under this alternative.

Under this alternative, the school

- must request and receive funds under the cash monitoring or reimbursement payment methods, as specified by the Department (see Chapter 5 for more information);

- must provide timely information regarding certain oversight and financial events (for example, any adverse action taken by the school's accrediting agency). A school should refer to 34 CFR 668.175(d) for more information;

- may be required to submit its financial statement and compliance audit earlier than normally required (see Chapter 11 for more information on audit submission deadlines); and

- may be required to provide information about its current operations and future plans.

The school must also require its auditor to express an opinion as part of the school's compliance audit, on the school's compliance with the requirements of the zone alternative, including the school's administration of the payment method under which the school received and disbursed SFA Program funds.

Transition year alternative

NEW

In order to provide schools with an opportunity to prepare for the evaluation of their financial responsibility under the November 25, 1997 standards, a transition period of one year was established. The transition year period varies for each school because it is based on each school's fiscal year. A school's transition year is the school's fiscal year that began on or after July 1, 1997 but on or before June 30, 1998.

During its transition year, a school that has a composite score of less than 1.5 may demonstrate financial responsibility by meeting the general financial responsibility standards that were in effect immediately prior to the November 25, 1997 final regulations. If a school fails to satisfy both the composite score standard and the "old" general financial responsibility standards, the school must meet one of the alternative standards. For any fiscal year that begins on or after the July 1, 1998 effective date of the November 25, 1997 regulations, a school must satisfy the requirements under the November 25, 1997 regulations.

Provisional certification for school not meeting standards

If a participating proprietary or private nonprofit institution fails to meet one or more of the general standards or is not financially responsible because it has an unacceptable audit opinion, the Department may permit the school to participate under provisional certification for up to three years. For example, a school with a composite score of less than 1.0 that cannot post the 50 percent letter of credit required for the letter of credit alternative, may be permitted to continue to participate under provisional certification by submitting a smaller letter of credit.

The Department may also permit a school that is not financially responsible because of a condition of past performance of the school to participate under provisional certification for up to three years if the school demonstrates to the Department that it has satisfied or resolved the condition.

A school that participates under provisional certification for a lack of financial responsibility does so under the following conditions

- the school must submit to the Department a letter of credit, payable and acceptable to the Department, for an amount determined by the Department (this amount must be equal to at least 10% of the SFA Program funds received by the school during its most recent fiscal year),

- the school must demonstrate that it has met all of its financial obligations and was current on its debt payments for its two most recent fiscal years, and

- the Department may require the school to comply with the requirement under the zone alternative that the school provide timely information regarding certain oversight and financial events.

If a school is still not financially responsible at the end of a period of provisional certification, the Department may again permit provisional certification. However, the Department may require the school or persons or entities that exercise substantial control over the school to submit financial guarantees to the Department to satisfy any potential liabilities arising from the school's SFA Program participation. The same persons may be required to agree to be jointly and severally liable for any SFA Program liabilities.

The Department is not required to offer provisional certification to a school. It is an alternative that the Debarment may offer the school instead of denying an application for recertification.

Provisional certification for school where persons or entities owe liabilities

If a school is not financially responsible because the persons or entities that exercise substantial control over the school owe an SFA Program liability, the Department may permit the school to participate under provisional certification if

- the persons or entities that owe the liability repay or enter into an agreement with the Department to repay the liability. In lieu of this, the school may assume the liability and repay or enter into an agreement to repay the liability;

- the school meets all the general standards of financial responsibility (except that the school must demonstrate that it has met all of its financial obligations and was current on its debt payments for its two most recent fiscal years; and

- the school submits to the Department a letter of credit, payable and acceptable to the Department, for an amount determined by the Department (this amount must be equal to at least 10%

of the SFA Program funds received by the school during its most recent fiscal year).

The school must comply with the requirement under the zone alternative that the school provide timely information regarding certain oversight and financial events.

In addition, the Department may require the school or persons or entities that exercise substantial control over the school to submit financial guarantees to the Department to satisfy any potential liabilities arising from the school's SFA Program participation. The same persons may be required to agree to be jointly and severally liable for any SFA Program liabilities.

Again, provisional certification is offered to a school at the Department's discretion. The Department is not required to offer provisional certification to a school.

PAST PERFORMANCE AND AFFILIATION STANDARDS

As mentioned at the beginning of this chapter, in addition to meeting the numeric standards of financial responsibility, a school must also demonstrate that it administers properly the SFA Programs in which it participates and that it meets all of its financial obligations, including repayments to the department for debts and liabilities. A school's financial responsibility is also evaluated based on the past performance of the school and persons affiliated with the school. Certain past actions of a school or a person affiliated with a school may reveal mismanagement of SFA Program funds, thereby demonstrating that a school is not financially responsible.

Past performance of a school

A school is not financially responsible if the school

- has been subject to a limitation, suspension, or termination action, or entered into an agreement to resolve a limitation, suspension, or termination action initiated by the Department or a guaranty agency in the last five years,
- has had, in the last two SFA program reviews or audits, findings for the current fiscal year or its two preceding fiscal years, that required a repayment of more than 5% of the SFA Program funds received by the school for the year covered by the review or audit,
- has been cited during the last five years for failing to submit audits as required, and
- has failed to satisfactorily resolve any compliance problems identified in program reviews or audit reports, based upon a final decision of the Department.

Family

A member of a person's family is a parent, sibling, spouse, child, spouse's parent or sibling, or sibling's or child's spouse.

Past performance of persons affiliated with a school

A school is not financially responsible if a person who exercises substantial control over the school (or any members of the person's family alone or together) owes a liability for an SFA Program violation, or has ever exercised substantial control over another school (or a third-party servicer) that owes a liability for an SFA Program violation, unless that person, family member, institution, or servicer demonstrates that the liability is being repaid in accordance with an agreement with the Department.

The Department may consider a school that does not meet this requirement to be financially responsible if the school

- notifies the Department that the person repaid to the Department an acceptable portion of the liability, in accordance with the regulations,
- notifies the Department that the liability is currently being repaid in accordance with a written agreement with the Department, or
- demonstrates to the satisfaction of the Department 1) why the person who exercises substantial control should nevertheless be considered to lack that control, or (2) why the person who exercises substantial control and each member of that person's family does not or did not exercise substantial control over the institution or servicer that owes the liability.

In the past, schools were required to maintain fidelity bond coverage for its employees. This is no longer a federal requirement for schools that participate in the SFA Programs. However, some schools are still required to maintain fidelity bond coverage because state laws require it. Even if it is not required to do so, a school may choose to maintain fidelity bond coverage to protect itself when losses occur resulting from a lack of integrity, honesty, or fidelity on the part of the school's employees or officers.

A school must report any changes of control under which a person acquires the ability to affect substantially the actions of the school. Such changes in control could call into question the school's financial responsibility. (For more information, see Chapter 10.)

FINANCIAL STATEMENTS

All financial statements are received by the Document Receipt and Control Center (DRCC). The DRCC calculates a school's composite score. The DRCC also assesses a school's economic viability and any unusual accounting treatments or policies. If a school's composite score is below 1.5, the DRCC will forward the school's financial statement to the Department's case management team. The DRCC will also forward a school's financial statement upon the request of a case team.

If by U.S. Postal Service

U.S. Department of Education, IPOS
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4085

If by commercial overnight or courier delivery

U.S. Department of Education, IPOS
7th and D Streets, SW
GSA Building, Room 3514
Washington, DC 20026-4085

FOREIGN SCHOOLS

A foreign school must meet the financial responsibility standards for domestic schools unless the school received less than $500,000 (in United States dollars) in SFA Program funds during its most recently completed fiscal year. A school that received less than $500,000 will have its financial responsibility determined through the Department's examination of the school's audited financial statement for the school's most recently completed fiscal year, and may have its audited financial statement prepared according to the standards of the school's home country. A foreign school that received $500,000 or more in SFA Program funds during its most recently completed fiscal year must have its audited financial statement translated and presented for analysis under U.S. Generally Accepted Accounting Principles (GAAP) and Generally Accepted Government Auditing Standards (GAGAS).

Cash Management

CHAPTER 5

The cash management requirements govern a school's management of most SFA Program funds. These requirements establish rules and procedures that a school must follow in requesting, maintaining, disbursing, and otherwise managing funds under the Pell Grant, FSEOG, Perkins Loan, FWS, Direct Loan, and FFEL programs.

Cash Management
34 CFR Subpart K

CLARIFICATION

These cash management requirements are not applicable to the state grant and scholarship programs because, unlike other SFA Programs, the state grant and scholarship programs are administered by the states. Therefore, the Department allows states administrative discretion in the management of these funds, as long as the states administer these programs within the limits established by applicable federal statutes and regulations. These state programs are: the Leveraging Educational Assistance Partnership Program (formerly the State Student Incentive Grant [SSIG] Program), Robert C. Byrd Honors Scholarship (Byrd) Program, and the Gaining Early Awareness and Readiness For Undergraduate Programs (which replaces the National Early Intervention Scholarship and Partnership [NEISP] Program).

PURPOSE OF CASH MANAGEMENT REQUIREMENTS

The cash management requirements are intended to

- promote sound cash management of SFA Program funds by schools,
- minimize the costs to the government of making SFA Program funds available to students and schools, and
- minimize the costs that accrue to students who receive SFA loans.

Purpose of Requirements Cite
34 CFR 668.161

Parent:
For purposes of the cash management requirements, a "parent" means a parent borrower under the PLUS Program.

The SFA Program funds received by a school are intended solely for the use of student beneficiaries, except for funds received as an administrative cost allowance, which are intended as a payment to the school, and funds used for the Job Location and Development Program under the FWS Program. (See the Administrative Cost Allowance discussion on page 87.) All other funds are held in trust by the school for students, the Department, and also, in the case of FFEL

Requesting Funds Cite
34 CFR 668.162, except as noted

Program funds, for lenders and guaranty agencies. SFA Program funds cannot be used as collateral or for any other purpose.

These rules and procedures also apply to a third-party servicer. For more information about third-party servicers, see the discussion in Chapter 2.

REQUESTING FUNDS

Currently, the Department provides Pell Grant, Direct Loan, and campus based program funds to a school either by the "advance payment method" or the "reimbursement payment method." Final regulations published November 29, 1996 introduced a third method for requesting funds from the Department: the just-in-time payment method. The Department has the sole discretion to determine the method under which SFA Program funds are provided to a school (although at this time, participation in the just-in-time payment method will be voluntary).

The Advance Payment Method

Under the advance payment method, a school may submit a request for Pell Grant, Direct Loan, and campus-based program funds to the Department prior to disbursing aid to eligible students and parents. If the Department accepts a school's request for funds, it will make an electronic funds transfer (EFT) of the amount requested to a bank account designated by the school. A school may not request more funds than the school needs immediately for disbursements the school has made or will make to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible, but no later than three business days following the date the school received those funds.

The Department does not automatically accept a request for funds from a school under the advance payment method. For example, the Department may reject a request if the amount of the request exceeds the amount of funds the school is authorized to draw down.

The Reimbursement Method

Under the reimbursement method, a school must disburse Pell Grant, Direct Loan, and campus-based program funds to eligible students and parents before requesting funds from the Department. Generally, the Department places a school on the reimbursement payment method if it determines that there is a need to monitor strictly the school's participation in the SFA Programs. The school cannot request more cash than the amount that it actually disbursed to those eligible students and parents. As part of the school's request the school must

- identify the students and parents for whom it is seeking reimbursement, and
- submit documentation demonstrating that each student and parent included in the request was eligible to receive and has

received the SFA Program funds for which reimbursement is requested.

Before approving a school's request for funds, the Department determines that the school has

- accurately determined the SFA eligibility of each student,
- accurately determined the SFA payment to each student and parent included in its request, and
- submitted the required documentation.

Limitations on use of FFEL Funds
Cite
34 CFR 668.167(d)

Limitations on use of FFEL Funds

There are comparable limitations on the use of FFEL funds. If a school is placed on reimbursement, or a school that participates only in the FFEL Program has most of the limitations of reimbursement placed on it, the school

- may not disburse FFEL Program funds to a borrower until the Department approves the school's request to disburse funds to that borrower, and
- if prohibited by the Department, may not certify a loan application for a borrower until the Department approves the school's request to make the certification for that borrower (this restriction applies on the date that the Department notifies a school that it must obtain approval from the Department to certify loan applications).

The school must provide documentation demonstrating that each borrower included in the request is eligible to receive the disbursement or certification. The documentation must be provided to the Department or an entity approved by the Department for that purpose (for example, a certified public accountant, financial aid consultant, or guaranty agency).

Until the Department approves a request, the school may be

- prohibited from endorsing a master check or obtaining a borrower's endorsement of any loan check the school receives from a lender,
- required to maintain loan funds that it receives from a lender via EFT in a separate bank account, and
- prohibited from certifying a borrower's loan application.

Because the school's submission and the Department's review of documentation to support a borrower's eligibility takes time, the school may delay returning FFEL Program funds provided by EFT or master check to a lender for a specified period of time (see the *SFA Handbook: Direct Loan and FFEL Programs Reference*).

The Cash Monitoring Payment Method

Final regulations published November 25, 1997 introduced the cash monitoring payment method. This payment method is similar to the reimbursement payment method, but less onerous. Like the reimbursement payment method, under the cash monitoring payment method, a school must first make disbursements to eligible students and parents before it requests or receives funds for those disbursements from the Department.

Unlike the reimbursement payment method, where a school must provide specific detailed documentation for each student to whom it made a disbursement before the Department provides SFA Program funds to the school, the Department provides funds to a school in one of two ways:

- the Department allows a school to make a draw of SFA program funds for the amount of the disbursements the school has made to eligible students and parents, or

- the Department reimburses the school for those disbursements based on a modified and streamlined review and approval process.

For example, instead of requiring a school to provide specific documentation for each student to whom the school made a disbursement and reviewing that documentation before providing funds to the school, the Department may simply require the school to identify those students and their respective disbursement amounts and provide SFA Program funds to the school based solely on that information.

A school that is placed under the cash monitoring payment method is subject to the disbursement and certification provisions that apply to FFEL Program funds when a school is placed on reimbursement, but in keeping with the nature of cash monitoring, the Department may modify those provisions.

Note that the Department may tailor the required documentation requirements on a case-by-case basis.

The Just-In-Time payment method

The just-in-time payment method, introduced in the November 29, 1996 final regulations, is part of the student-centered integrated delivery system under development by Project EASI. (For more information on Project EASI, see Chapter 2). In "Dear Colleague" letter P-98-5, the Department invited schools to consider volunteering to be the first participants in the just-in-time payment method by participating in a pilot program starting in the 1999-2000 award year. Pilot participants will use the just-in-time payment method for the Pell Grant Program only. The pilot program is part of the implementation of the new Federal Pell Grant Program Recipient Financial Management System (RFMS). For more information on RFMS, see the *SFA Handbook, Student Eligibility.*

Under the just-in-time payment method pilot, a school will submit a disbursement record (the disbursement record will be both a report of a disbursement and a request for funds) no earlier than 5 days before the actual reported date of disbursement. For each request the Department accepts for a student or parent, the appropriate amount of funds will be deposited directly into the school's bank account.

Schools participating in the just-in-time payment method pilot will be exempt from the following regulatory requirements with respect to Federal Pell Grant funds:

(1) the "three-day-use" rule required for the advance payment method. (Section 668.162(b)(3). See page 68.)

(2) the reverification of student eligibility at the time of disbursement (an institution may rely on its determination at the time it submits the disbursement record for Federal Pell Grant funds). (Section 668.162(c)(3)).

(3) the requirement that an institution maintain Federal Pell Grant funds in an interest-bearing bank account. (Section 668.163(c)(3)(iii). See page 73.)

(4) the excess-cash rules (Section 668.166(a)(2). See page 86.)

Using this payment method, schools will have only a nominal amount of excess cash created by minor period adjustments. Since the Department will modify new requests for funds after deducting any adjustments reported by the school, large amounts of excess cash should not occur.

For pilot participants, this regulatory relief does not extend to SFA programs other than the Pell Grant Program.

The just-in-time payment method will enable the delivery system to provide the most current payment information to students and other system users, thereby reducing burden related to the reconciliation of payment data. This payment information will form the core of the individual student account that is the basis for the Project EASI integrated delivery system. By providing funds based on current student-level data, this payment method will strengthen the Department's ability to monitor the integrity of the SFA Programs by reducing the potential for the misuse of funds.

The Department's long-term goal is for all schools, except those using the reimbursement or cash-monitoring payment method, to participate in the Federal Pell Grant Program using the Just-In-Time payment method.

Maintaining and Accounting for Funds Cite
34 CFR 668.163

GAPS

To facilitate implementation of the Education Central Automated Processing System (EDCAPS), section 668.162(a)(2) of the Student Assistance General Provisions regulations requires that each time a school requests funds from the Department, the school must identify the amount of funds requested by SFA Program using the program and fiscal year designation (grant award number) that the Department assigned to the authorized funds.

In May 1998, the Department converted to the Education Central Automated Processing System (EDCAPS). Within EDCAPS is the new Grants Administration and Payments System (GAPS), a state-of-the-art delivery system that supports Title IV award and payment administration. GAPS provides on-line capabilities to request payments, adjust drawdowns, and report expenditures from the Department. It also provides continuous access to current grant and payment information, such as authorization amounts, cumulative drawdowns, current award balances, and payment histories.

Schools that participate in SFA programs that require them to submit a payment request, such as Pell Grants or campus-based programs, use GAPS to request funds. Direct Loan funds can be drawn through the GAPS system. GAPS can be accessed through the Internet at the GAPS web page: http://gapsweb.ed.gov. The GAPS web page also provides in-depth information on the GAPS system as well as training information for the payment request process, including the GAPS Payee's Guide (http://gapsweb.ed.gov/training). The GAPS Payee Hotline number is 1-888-336-8930.

MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, SFA Program funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of SFA Program funds in the account. A school is not required to maintain a separate account for SFA Program funds unless the Department specifies otherwise.

A school is not required to maintain a separate bank account for FFEL Program funds that the school receives from a lender by EFT. A school must maintain and account for FFEL Program funds in the same manner required for other SFA Program funds.

Bank Account Notification Requirements

For each account that contains SFA Program funds, a school must identify that SFA Program funds are maintained in the account by

- including the phrase "federal funds" in the name of the account, or

- notifying the bank or investment company of the accounts that contain SFA Program funds and keeping a copy of this notice in its records *and*, except for public institutions, filing an UCC-1 statement with the appropriate state or municipal government entity that discloses that an account contains federal funds.

The school must keep a copy of the UCC-1 statement in its records.

The requirement that a school file a UCC-1 statement when an account's name does not include the phrase "federal funds" was established to reduce the possibility that a school could misrepresent federal funds as its own funds to obtain a loan or secure credit. Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they are exempt from the requirement.

The Department may require a school to maintain SFA Program funds in a separate account that contains only SFA Program funds if the Department determines that the school failed to comply with cash management requirements, recordkeeping and reporting requirements, or other applicable program regulations.

Interest-bearing or Investment Account

Except in the instances discussed below, the account that Direct Loan, Pell Grant, FSEOG, and FWS program funds are deposited in must be an interest-bearing account or an investment account. An investment account must consist predominately of low-risk income-producing securities. If a school chooses to maintain federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

Any interest earned on Direct Loan, Pell Grant, FSEOG, and FWS program funds maintained in an interest-bearing account or an investment account that exceeds $250 per year, must be remitted to the Department at least once a year. A school may keep up to $250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining an interest-bearing account. However, a school must keep any interest earned on Perkins Loan funds for transfer to the Perkins Loan Fund.

Exceptions

A school is not required to maintain Direct Loan, Pell Grant, FSEOG, and FWS program funds in a interest-bearing account or an investment account for an award year if

- the school drew down less than $3 million from these funds in the prior award year and anticipates that it will not draw down more than $3 million in the current award year,

- the school can demonstrate that it would not earn over $250 in interest on the funds it will draw down during the award year, or

- the school requests these funds under the just-in-time payment method.

Disbursing Funds Cite
34 CFR 668.164

Schools that request funds under the just-in-time payment method are exempt because this method would ensure the expeditious accounting and disbursement of program funds. Therefore, little or no interest would be earned on funds provided to the school.

Federal Perkins Loan Program Participants

A school that participates in the Perkins Loan Program must always maintain an interest-bearing account or an investment account for Perkins Loan funds. If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. However, if the school chooses to maintain one account, it must determine the exact amount of any interest earned on the Perkins Loan funds for transfer to the Perkins Loan Fund.

Accounting and Financial Requirements

If a school is not required and does not choose to maintain separate accounts, it must maintain accounting and internal control systems that

- identify the balance of the funds of each SFA Program that are included in the school's bank or investment account as readily as if those funds were in a separate account, and

- identify earnings on SFA Program funds in the school's bank or investment account.

A school must maintain its financial records in accordance with the recordkeeping requirements of 34 CFR 668.24 (see Chapter 8).

DISBURSING FUNDS

These disbursement requirements apply to all the SFA Programs specified at the beginning of this chapter, except for the FWS Program. A school must follow the disbursement procedures in 34 CFR 675.16 for paying a student his or her wages under the FWS Program (see the *SFA Handbook: Campus-Based Programs Reference*).

Definition of Disbursed

SFA Program funds are disbursed when a school credits a student's account with the funds or pays a student or parent directly with

- SFA Program funds received from the Department,

- FFEL funds received from a lender, or

- institutional funds labeled as SFA Program funds in advance of receiving actual SFA Program funds (except in the instances noted below).

It is important to distinguish when SFA Program funds have been disbursed for a number of reasons. To begin with, once SFA Program funds have been disbursed, a student becomes an SFA recipient and the rights and responsibilities of an SFA recipient are in effect. For example, if the student is an SFA loan recipient, he or she assumes responsibility for the loan (and all interest accruing on the loan if it is unsubsidized), and has the right to cancel the loan. In addition, knowing when an SFA disbursement occurs will allow a school to determine when it must comply with regulatory requirements related to disbursements and other cash management issues.

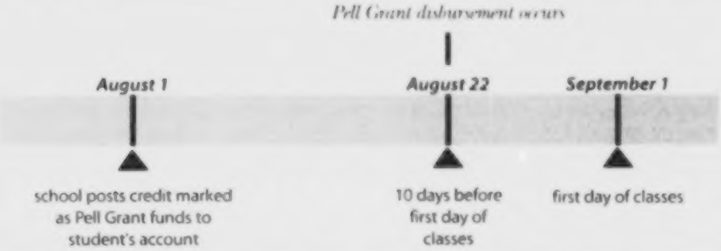
This definition of "disbursed" makes clear that any funds labeled as SFA Program funds *are* SFA Program funds.

Exceptions

However, because of other SFA Program requirements, there are two instances when crediting institutional funds labeled as SFA Program funds to a student's account in advance of receiving the actual SFA Program funds will not result immediately in an SFA disbursement:

- If a school credits a student's account with the institutional funds in advance of receiving SFA Program funds earlier than 10 days before the first day of classes of a payment period, the SFA disbursement occurs on the tenth day before the first day of classes. See the example below. (This provision corresponds to the early disbursement requirements. See page 78.)

Advance Credit to Account Example


Pell Grant disbursement occurs
August 1
August 22
September 1
school posts credit marked as Pell Grant funds to student's account
10 days before first day of classes
first day of classes

- For a student whose loan funds are subject to the 30-day disbursement delay, if a school credits the student's account with institutional funds in advance of receiving SFA Program funds earlier than 30 days after the first day of the payment period, the SFA loan disbursement occurs on the 30th day after the beginning of the payment period.

In addition, if a school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an SFA credit (for example, an "estimated Federal Pell Grant") the disbursement does not occur until the posting is subsequently converted to an actual credit. If the posting is never converted to an actual credit, it never becomes an SFA Program disbursement.

Current charges:
Charges assessed the student by the school for the current award year or the loan period for which the school certified or originated a FFEL or Direct Loan.

Disbursement by Crediting a Student's Account

When a school disburses SFA Program funds to a student by crediting a student's account, it may only do so for allowable charges. Funds in excess of the allowable charges must be paid directly to the student, unless otherwise authorized by the student. (An exception for the payment of prior year charges is discussed on page 82.)

Allowable Charges

Allowable charges are

- current charges for tuition and fees (as defined in section 472 of the Higher Education Act of 1965, as amended [HEA]), room and board (if the student contracts with the school), and

- other current charges that a student incurs for educationally related activities, if the school obtains the student's or parent's authorization to have such charges credited with SFA Program funds.

In other words, if a charge does not meet the definition of tuition and fees in Section 472 of the HEA (with the exception of contracted room and board charges), the school must obtain the student's permission (or parent's, if applicable) to credit the student's account with SFA Program funds for the charges.

Disbursing SFA Funds Directly

In addition to crediting a student's account, SFA Program funds may be disbursed directly to a student or parent. A school may disburse funds "directly" by one of four methods:

- releasing a check provided to the school by a FFEL Program lender to the student or parent;

- issuing a check or other instrument payable to and requiring the endorsement or certification of the student or parent. (A check is issued if the school releases or mails the check to a student or parent, or notifies the student or parent that the check is available for immediate pickup.);

- initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent; and

- paying the student in cash, provided that the school obtains a signed receipt from the student or parent.

A parent borrower of PLUS Loan funds may authorize the school to transfer PLUS Loan funds to a bank account in the student's name.

Note that the law requires a school that disburses Direct Loans to student accounts to first use Direct Loan funds to pay for outstanding allowable charges. This does not mean that Direct Loan funds must be credited to a student's account prior to other funds. The law simply requires that if there is any outstanding balance for current or authorized charges on the student's account when Direct Loan funds are disbursed, the Direct Loan funds must be applied to those outstanding charges before any Direct Loan funds may be disbursed directly to the borrower.

Disbursement by Payment Period Cite
34 CFR 668.164(b)

Exemptions to Multiple Disbursement Requirements
Sec. 428G(a)

DISBURSEMENT BY PAYMENT PERIOD

Schools must disburse all SFA Program funds (except FWS) on a payment period basis (for more information on the definition of a payment period, see Chapter 2). However, disbursement requirements vary by program. For information on the specific effects of the payment period disbursement requirement on disbursement of funds under a particular SFA Program, please see the applicable Handbook chapter.

Amendments of 1998

The Higher Education Amendments of 1998, Public Law 105-244 (the Amendments) provide exemptions, under certain circumstances, to schools with low default rates from multiple disbursement requirements and the 30-day delay requirements. For more information, see the *SFA Handbook: Direct Loan and FFEL Program Reference.*

Unless a student is eligible to receive a late disbursement of SFA Program funds, a school may disburse SFA Program funds to a student or parent for a payment period only if the student is enrolled for classes for that payment period and is eligible to receive those funds.

Excused Absences

An excused absence (an absence that does not have to be made up) may be counted as a completed clock hour under certain circumstances. For a student enrolled in a program measured in clock hours, the school may include clock hours for which the student has an excused absence in determining whether the student completes the clock hours in the payment period if

- the school has a written policy that permits excused absences, and
- for SFA purposes, the number of excused absences under the policy does not exceed the lesser of
    - Δ the policy on excused absences of the school's designated accrediting agency,
    - Δ the policy on excused absences of any state agency that legally authorizes the school to operate, or
    - Δ 10% of the clock hours in the payment period.

An excused absence may only be counted if the student is excused from hours that were actually scheduled, missed, and not to be made up.

Early Disbursements Cite
34 CFR 668.164(f)

Late Disbursements Cite
34 CFR 668.164(g)

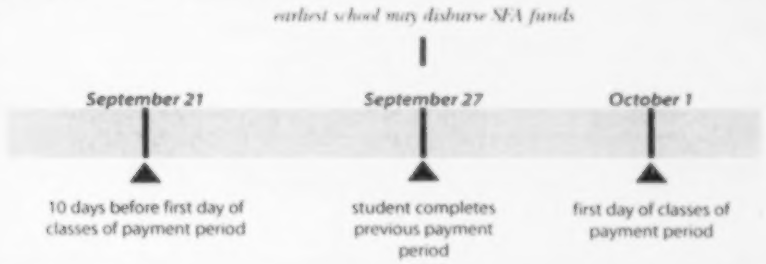
EARLY DISBURSEMENTS

The earliest a school may disburse SFA Program funds is

- for a student enrolled in a credit-hour program offered in semester, trimester, or quarter academic terms, 10 days before the first day of classes for a payment period.

- for a student enrolled in a clock hour program or a credit-hour program that is not offered in semester, trimester, or quarter academic terms, the later of 10 days before the first day of classes for the payment period, or the date the student completed the previous payment period for which he or she received SFA Program funds (see the example below).

Early Disbursement Example


earliest school may disburse SFA funds
September 21
September 27
October 1
10 days before first day of classes of payment period
student completes previous payment period
first day of classes of payment period

This provision generally applies only to the first disbursement of an FFEL or Direct Loan. (This requirement is applicable to any payment period beginning on or after July 1, 1997.)

Note that if a student is in the first year of an undergraduate program and is a first-time borrower under the FFEL or Direct Loan program, a school may not disburse the first installment of his or her loan until 30 days after the student's first day of classes.

LATE DISBURSEMENTS

A student who withdraws or otherwise ceases attendance has lost SFA eligibility and generally may not be paid further funds for the enrollment period. However, a late disbursement of SFA Program funds may be made to an ineligible student if the student became ineligible only because

- for purposes of the Direct Loan and FFEL programs, the student is no longer enrolled at the school as at least a half-time student for the loan period, and

- for purposes of the Pell Grant, FSEOG, and Perkins Loan programs, the student is no longer enrolled at the school for the award year.

In addition, other conditions must be met depending on the SFA Program from which the late disbursement is to be made. The following chart lists these conditions:

Late Disbursements

Program	A late disbursement may be made if, before the date the student becomes ineligible...		
Direct Loans*	SAR or ISIR with official EFC is received (all programs)	electronic origination record is created	For a first-year, first-time borrower, student completed first 30 days of program
FFEL Loans*		loan application is certified	
Pell		Valid SAR or ISIR is received	
SEOG		Student is awarded grant	
Perkins		Student is awarded loan	

**A school may not make a late second or subsequent disbursement of a Direct Subsidized or Direct Unsubsidized loan, or a FFEL Stafford Loan, unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.*

A school may make the late disbursement only if the funds are used to pay for unpaid educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible. A school is not required to obtain detailed expenditure documentation from the student. Instead, the school may develop a policy that it applies in all cases. For example, a school may adopt a policy that all expenses for books and supplies are considered to have been incurred by a student who withdraws after the first two weeks of the term (provided that this policy does not conflict with any applicable refund requirements).

The school must make the late disbursement to the student no later than 90 days after the date that the student becomes ineligible. For a FFEL, this means that the funds would have to be disbursed to the school by the lender to provide sufficient time for the school to disburse the funds to the student within 90 days.

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Credit Balances Cite
34 CFR 668.164(e)

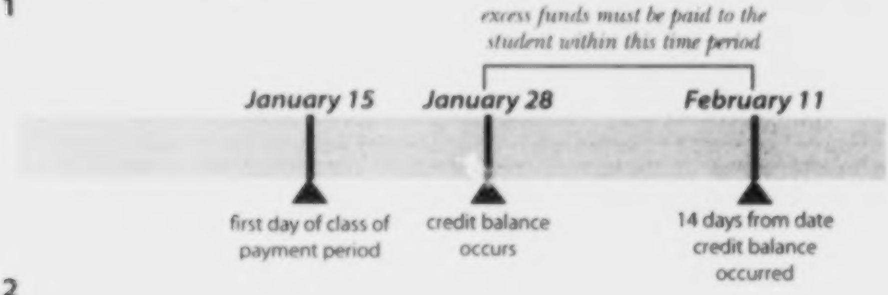
SFA CREDIT BALANCES

Whenever a school credits SFA Program funds to a student's account, and those funds exceed the student's allowable charges, an SFA credit balance occurs. A school must pay the excess SFA Program funds (the credit balance) directly to the student as soon as possible, but no later than 14 days after the later of

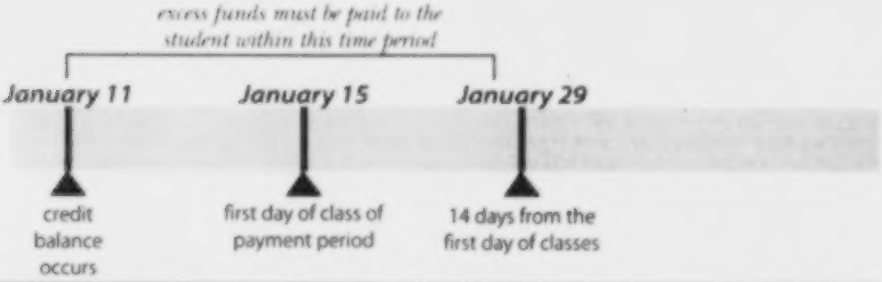
- the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period (see Example 1 below), or
- the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period (see Example 2 below).

Payment of a Credit Balance Example

1


excess funds must be paid to the student within this time period
January 15
January 28
February 11
first day of class of payment period
credit balance occurs
14 days from date credit balance occurred

2


excess funds must be paid to the student within this time period
January 11
January 15
January 29
credit balance occurs
first day of class of payment period
14 days from the first day of classes

CLARIFICATION

Note that an SFA credit balance occurs only if the total amount of SFA Program funds exceeds allowable charges. For example, if a student's total allowable charges are $1500, and credits to the student's account comprise $1000 in FSEOG, $500 in state aid funds, and $500 in Pell Grant funds, although there is an excess of $500 on the account, an SFA credit balance would not exist. This is because the total amount of SFA Program funds ($1500) does not by itself exceed the amount of allowable charges ($1500). If, in the example above, the amount of Pell Grant funds credited to the student's account was $600, rather than $500, an SFA credit balance of $100 would exist. One hundred dollars is the amount by which the total SFA Program funds credited to the account ($1600) would exceed the allowable charges ($1500). The order in which these funds were credited does not matter.

Note that the law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if a school determines that PLUS Loan funds created a credit balance, the credit balance would have to be given to the parent. At this time, the Department does not specify how a school must determine which SFA Program funds create an SFA credit balance.

The Department does not address the treatment of credit balances that are created by non-SFA Program funds. However, under the SFA refund requirements, when a student withdraws, all credit balances must be eliminated before a refund calculation is performed. For information on the treatment of a credit balance when a student withdraws, see Chapter 6.

Holding Credit Balances

A school is permitted to hold excess funds (credit balances) if it obtains a voluntary authorization from the student or parent. If a school receives authorization to hold excess funds, the school must identify the student or parent and the amount of funds the school holds for the student or parent in a subsidiary ledger account designated for that purpose. The school must maintain, at all times, cash in its bank account at least equal to the amount the school holds for students. Because SFA Program funds are awarded to students to pay current year charges, notwithstanding any authorization obtained by a school from a student or parent, the school must pay

- any remaining balance on loan funds by the end of the loan period, and
- any other remaining SFA Program funds by the end of the last payment period in the award year for which they were awarded.

CLARIFICATION

If a school cannot locate a student to which an SFA credit balance must be paid (i.e., the school has exhausted all possible avenues to find the student), the school must return the credit balance to the Department. In this case, a school will have to determine which SFA Program funds created a credit balance before it can return funds to the SFA Programs. As mentioned previously, the Department does not specify how a school must determine which SFA funds create a credit balance. However, the Department encourages schools to return SFA Program funds to loan programs first to reduce the likelihood of default.

The school is permitted to retain any interest earned on the student's credit balance funds. The Department may prohibit a school that has been placed on reimbursement from holding excess funds. If the Department determines that the school has failed to meet the financial responsibility standards, a limitation may be placed on the school preventing it from holding excess funds for any student.

Prior-year Charges Cite
34 CFR 668.164(d)

Required School Notifications Cites
34 CFR 668.165

PRIOR-YEAR CHARGES

In general, SFA Program funds are allowed to be used to pay only for educational expenses a student incurs in the period for which those funds are provided. However, a school is permitted to use a student's SFA Program funds to pay minor prior-year institutional charges if the student has, or will have, an SFA credit balance, and the school obtains the student's or parent's authorization to pay the prior-year charges.

A school may obtain authorization from a student in advance to use SFA Program funds to cover prior-year charges that are less than $100. To pay prior-year charges for amounts equal to or greater than $100, in addition to obtaining an authorization, a school must determine that payment would not prevent the student from paying for his or her current educational expenses.

REQUIRED SCHOOL NOTIFICATIONS

Before a school disburses SFA Program funds for any award year, the school must notify a student of the amount of SFA Program funds the student and his or her parent can expect to receive from each SFA Program, and how and when those funds will be disbursed. If those funds include Direct Loan or FFEL Program funds, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans.

A school must provide the best information it has regarding the amount of SFA Program funds a student can expect to receive. Because the actual loan disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), a school may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

Opportunity for Loan Cancellation

Because incurring a loan obligation is a serious responsibility, a borrower must be given the opportunity to cancel the loan at or close to the time the funds are actually disbursed and the debt incurred. Notification of when a loan disbursement occurs is required to remind borrowers of their loan obligation and to give students the opportunity to replace credited loan proceeds with other funds. Therefore, the school must notify a student or parent in writing or electronically whenever the school credits the student's account with Direct Loan, FFEL, or Perkins Loan program funds. The notification must include

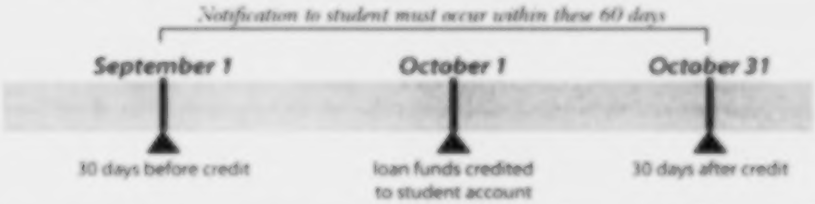
- the date and amount of the disbursement;
- the right of the student or parent borrower to cancel all or a portion of the loan. (This is applicable to FFEL Program funds only if the school received the loan funds from a lender through EFT payment or master check.); and

- the procedures and the time by which the student or parent borrower must notify the school that he or she wishes to cancel the loan or a portion of the loan.

A school is not required to provide notification of cancellation rights if the school disburses a FFEL directly to the student or parent by check. This is because a student or parent who receives a FFEL disbursement via check has the opportunity to refuse the funds by not endorsing the check or by returning the check.

This notification of crediting a student's account with loan funds must be sent no earlier than 30 days before and no later than 30 days after crediting the student's account (see example below). If a school notifies a borrower electronically, it must request that the borrower confirm the receipt of the notice and the school must maintain a copy of that confirmation. For example, if a school notifies a borrower through electronic mail, the school must request a "return receipt" message and keep a copy of the receipt on file.

Notification When Credit to Account Example


Notification to student must occur within these 60 days
September 1
October 1
October 31
30 days before credit
loan funds credited to student account
30 days after credit

A school may not use an in-person or telephonic conversation as the sole means of notification. In-person and telephonic conversations are not adequate and verifiable methods of providing notice. However, notification to borrowers in-person and by telephone may be done in addition to providing written or electronic notice.

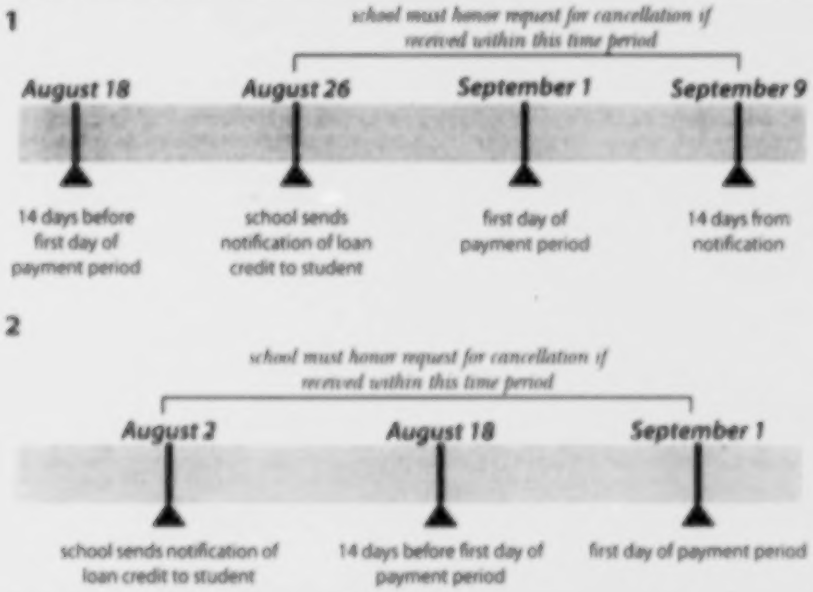
Once the school has provided notification, if the student or parent wishes to cancel all or a portion of a loan, he or she must inform the school. The school must honor the request if the request is received no later than

- 14 days after the date the school sends the notice (see example 1 on the next page), or

- the first day of the payment period, if the school sends the notice more than 14 days before the first day of the payment period (see example 2 on the next page).

Required Student Authorizations Cite
34 CFR 668.165

14 Day Cancellation Period Example


1
school must honor request for cancellation if received within this time period
August 18
August 26
September 1
September 9
14 days before first day of payment period
school sends notification of loan credit to student
first day of payment period
14 days from notification
2
school must honor request for cancellation if received within this time period
August 2
August 18
September 1
school sends notification of loan credit to student
14 days before first day of payment period
first day of payment period

If a student's or parent's request for cancellation is received within the specified time period, the school must return the loan proceeds and/or cancel the loan as appropriate. If a student's or parent's request for cancellation is received after the specified time period, the school may, but is not required to, honor the request. Regardless of when the request is received, the school must inform the student or parent, in writing or electronically, of the outcome of the request.

A school is not responsible for returning a portion of a loan that was disbursed to a student or parent directly before the request for cancellation was received. However, a school is encouraged to take an active role in advising the borrower to return the portion of funds already received.

REQUIRED STUDENT AUTHORIZATIONS

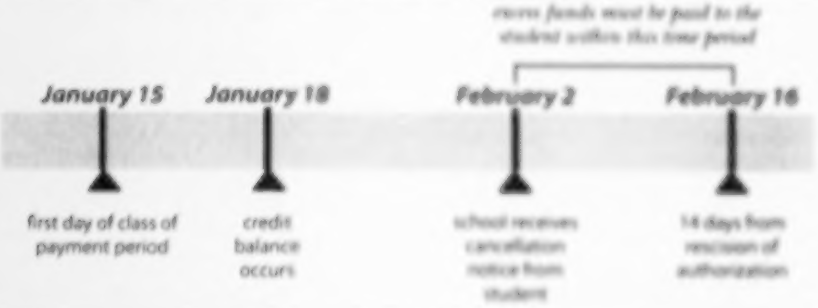
As discussed previously in this chapter, a school must obtain authorization from a student (or parent borrower) before

- disbursing SFA Program funds by EFT to a bank account designated by the student or parent,
- using SFA Program funds to pay for allowable charges other than tuition, fees and room and board (if the student contracts with the school),
- holding excess SFA Program funds (credit balances), and
- applying SFA Program funds to prior-year charges.

In obtaining an authorization from a student or parent, a school may not require or coerce the authorization and must notify the student or parent that he or she may cancel or modify the authorization at any time. Once a student or parent cancels or modifies his or her authorization, the school may not perform the function, or must perform the function as modified, from that date forward.

A cancellation or modification is not retroactive. If a student or parent cancels an authorization to use SFA Program funds to pay for allowable charges other than tuition, fees, and room and board (if the student contracts with the school), or prior-year charges, the school may use SFA Program funds to pay any authorized charges incurred by the student before the notice was received by the school. If a student or parent cancels an authorization to hold excess funds, the funds must be paid directly to the student or parent as soon as possible, but no later than 14 days after the school receives the notice (see example below).

Payment After Cancel Authorization Example


excess funds must be paid to the student within this time period
January 15
January 18
February 2
February 16
first day of class of payment period
credit balance occurs
school receives cancellation notice from student
14 days from rescission of authorization

A school may include two or more of the items that require authorization on one statement. However, a student (or parent borrower) must be informed that he or she may refuse to authorize any individual item on the statement.

Any authorization must clearly explain how the school will carry out an activity. It does not need to detail every aspect pertaining to the activity; however, a blanket authorization that only identifies the activities to be performed is not acceptable. For example, an authorization permitting a school to use excess SFA Program funds must provide detail that is sufficient to give the student (or parent) a general idea of what the excess funds would be used to pay. A blanket statement that excess funds would cover any charges is not acceptable.

Unless otherwise specified, a student or parent may authorize a school to carry out the activities for which authorization is provided for the entire period during which the student is enrolled at the school. As mentioned above, a student or parent may cancel or modify an authorization at any time.

Excess Cash Cite
34 CFR 668.166

EXCESS CASH

As mentioned in the discussion of the advanced payment method, a school must disburse requested funds no later than three business days following the date the school receives the funds. "Excess cash" is any amount of SFA Program funds, other than funds received under the just-in-time payment method (see page 70), that a school does not disburse to students by the end of the third business day. Excess cash must be returned to the Department immediately. However, sometimes a school is prevented from disbursing funds in the required three days because of circumstances outside the school's control. For example, a school may not have been able to disburse funds because of a change in a student's enrollment status, a student's failure to attend classes as scheduled, or a change in a student's award as a result of verification. To take these circumstances into account, under the following circumstances, a school may maintain an excess cash balance for up to seven additional days.

Allowable Excess Cash Tolerances

For a period of peak enrollment (see below) at the school during which a drawdown of excess cash occurs, the school can maintain the excess cash balance in its federal account if the excess cash balance is less than 3% of the school's total prior-year drawdowns. The school is required to eliminate the excess cash balance within the next seven days by disbursing SFA Program funds to students for at least the amount of that excess cash balance.

A period of peak enrollment at a school occurs when at least 25% of the school's students start classes during a given 30-day period. A school determines this percentage for an award year with the following fraction:

$$\frac{\text{Number of students who started classes in the comparable 30-day period in the prior award year}}{\text{Total number of students who started classes during the entire prior award year}}$$

For any period other than a period of peak enrollment, the school can maintain the excess cash balance if the excess cash balance is less than 1% of the school's prior-year drawdowns. In this case also, the school is required to eliminate the excess cash balance within the next seven days by disbursing SFA Program funds to students for at least the amount of that balance.

If a school that is participating in the Direct Loan Program does not have prior-year drawdown data for the Direct Loan Program because it did not participate in the Direct Loan Program for that prior award year, the school may include the total amount of loans guaranteed under the FFEL Program for students attending the school during that year in determining total prior-year drawdowns.

The Department reviews schools to determine where excess cash balances have been improperly maintained and to seek recovery from those schools of the resulting losses to the government.

Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school. In addition, where excess cash balances are disproportionately large to the size of the school or represent a continuing problem with the school's responsibility to administer efficiently the SFA Programs, the Department may initiate a proceeding to fine, limit, suspend, or terminate the school's participation in one or more of the SFA Programs. (For more on fines and other actions against schools, see Chapter 11.)

Generally, a check is "issued" when the school releases, distributes, or makes available the check by mailing the check to the student or parent (if applicable), or by notifying the student or parent expeditiously that the check is available for immediate pickup. However, upon a finding that a school has maintained excess cash balances, the Department considers the school to have issued a check on the date that check cleared the school's bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

Finally, the Department will assess a school that maintains excess cash balances a liability that is equal to the difference between the earnings those cash balances would have yielded under a Treasury-derived rate and the actual interest earned on those cash balances.

ADMINISTRATIVE COST ALLOWANCE

The Pell Grant Program

The Department pays an administrative cost allowance (ACA) to schools to offset some of the administrative costs related to the Pell Grant and campus-based programs. As defined in the regulations, the Pell Grant Program ACA is $5 for each Pell Grant recipient at the school (calculated by the Department, based on the number of Pell Grant recipients reported by the school). Schools are notified of their Pell Grant ACA by mail three times during the processing year. The Pell Grant allowance is paid directly to the school from the Federal Reserve. (For more information, see the *SFA Handbook: Pell Grant Reference.*)

Campus-based Allowance

A school calculates its own campus-based program ACA in its annual Fiscal Operations Report and Application to Participate (FISAP), based on a percentage of its campus-based expenditures in

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the previous award year (see *SFA Handbook: Campus-Based Programs Reference*). Unlike the Pell Grant ACA procedures, the school must draw down the campus-based ACA from its program allocation using the ED Payment System. (A school may use up to 10% of the FWS-based ACA for expenses incurred for its community service program.)

CHAPTER 6

Withdrawals (Refunds)

This chapter explains how SFA Program funds are handled when a recipient of SFA Program funds withdraws from school.

The Higher Education Amendments of 1998, Public Law 105-244 (the Amendments of 1998) changed substantially the way funds paid toward a student's education are to be handled when a recipient of SFA Program funds withdraws from school. Schools are not required to implement these new provisions until October 7, 2000. However, a school may choose to implement the new provisions prior to that date. Therefore, this chapter provides information for both the current requirements (those in effect for all schools prior to the Amendments of 1998) and the new requirements (those in the Amendments of 1998) for the treatment of funds when a student withdraws.

Withdrawal Cites
Sec. 484B, 485(a)(1)(F), 34 CFR 668.22

Amendments of 1998

THE AMENDMENTS OF 1998

Major Changes

Amendments of 1998

The current provisions require all schools participating in the SFA Programs to use specific refund policies when a student who receives SFA Program funds ceases attendance. In addition, the current provisions specify an order of return of unearned funds from all sources of aid, not just the SFA Programs.

The new requirements do not prescribe the use of any refund policy. Instead, a statutory schedule is used to determine the amount of *SFA Program funds* a student has earned when he or she ceases attendance based on the period the student was in attendance. As a result, the order of return of unearned funds no longer includes funds from sources other than the SFA Programs.

Up through the 60% point in each payment period or period of enrollment, a pro rata schedule is used to determine how much SFA Program funds the student has earned at the time of withdrawal. After the 60% point in the payment period or period of enrollment, a student has earned 100% of the SFA Program funds.

The new requirements do not prohibit a school from developing or complying with refund policies that determine the amount of institutional costs that a school has earned when a student withdraws.

Schools are still required to provide students with the details of the school's refund policy in addition to providing information on the SFA Program requirements for determining the amount of SFA Program funds a student has earned when he or she withdraws.

General Requirements

In general, the Amendments require that if a recipient of SFA Program assistance withdraws from a school during a payment period or a period of enrollment in which the recipient began attendance, the school must calculate the amount of SFA Program assistance the student did not earn and those funds must be returned.

Withdrawal Date

If a school is required to take attendance the withdrawal date is the date determined from the attendance records.

If a school is not required to take attendance, the withdrawal date is

- The date that student began the withdrawal process prescribed by the school;
- The date that student otherwise provided official notification to the school of the intent to withdraw; or
- If the student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw, the midpoint of the payment period for which SFA Program assistance was disbursed or a later date documented by the school.

If the school determines that a student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw due to illness, accident, grievous personal loss, or other circumstances beyond the student's control, the school may determine the appropriate withdrawal date.

Leave of Absence

A school may grant a student a leave of absence of up to 180 days in any 12-month period during which the student is not considered withdrawn and no refund calculation is required. The following conditions must be met:

- The school has a formal policy regarding leaves of absences;
- The student followed the school's policy in requesting the leave of absence; and

- The school approved the request in accordance with the school's policy.

If a student does not return to the school at the end of an approved leave of absence, the school is required to calculate the refund based on the date the student withdrew.

Calculation of Amount of SFA Program Assistance Earned

The amount of SFA Program assistance earned is the percentage of SFA Program assistance that has been earned multiplied by the total amount of SFA Program assistance that was disbursed (and that could have been disbursed) for the payment period or period of enrollment as of the day the student withdrew.

The percentage earned is one of the following:

- If the day the student withdrew occurs on or before the student completed 60 percent of the payment period or period of enrollment for which the assistance was awarded, the percentage earned is equal to the percentage of the payment period or period of enrollment for which assistance was awarded that was completed.

- If the day the student withdrew occurs after the student has completed 60 percent of the payment period or period of enrollment, the percentage earned is 100 percent.

The percentage and amount not earned is the complement of the percentage of SFA Program assistance earned multiplied by the total amount of SFA Program assistance that was disbursed (and that could have been disbursed) to the student, or on the student's behalf, for the payment period or period of enrollment, as of the day the student withdrew.

Percentage of the Payment Period or Period of Enrollment Completed

If a program is measured in credit hours, the percentage of the payment period or period of enrollment completed is the total number of calendar days in the payment period or period of enrollment for which the assistance is awarded divided into the number of calendar days completed in that period as of the day the student withdrew.

If the program is measured in clock hours, the percentage is the total number of clock hours in the payment period or period of enrollment for which assistance is awarded divided into the number of clock hours that are either—

- Completed by the student in that period as of the day the student withdraws; or

- If the clock hours completed in the period are not less than a percentage of the hours that were scheduled to be completed by the student in the period, the number of clock hours that are scheduled to be completed by the student as of the day the student withdrew in the period. The percentage of the hours that were scheduled to be completed is to be determined by the Department in regulations.

Disposition of Differences between Amount Earned and Amount Received

If the student receives less SFA Program assistance than the amount earned, the school must comply with the procedures for late disbursement specified by the Department in regulations.

If the student receives more SFA Program assistance than the amount earned, the school, or the student, or both, must return the unearned funds as required, and in the order specified, below.

Return of Unearned SFA Program Funds

The school must return the lesser of—

- The amount of SFA Program funds that the student does not earn; or

- The amount of institutional costs that the student incurred for the payment period or period of enrollment multiplied by the percentage of funds that was not earned.

The student (or parent, if a Federal PLUS loan) must return or repay, as appropriate, the remaining unearned SFA Program grant and loan funds. However, a student is not required to return 50 percent of the grant assistance received by the student that it is the responsibility of the student to repay.

Method of Return of Funds by the Student

The student (or parent, if a Federal PLUS loan) must return the unearned funds for which they are responsible to loan programs in accordance with the terms of the loan, and to grant programs as an overpayment. Grant overpayments are subject to repayment arrangements satisfactory to the school, or overpayment collection procedures prescribed by the Secretary.

Order of Return of SFA Program Funds

Funds credited to outstanding loan balances for the payment period or period of enrollment for which a return of funds is required must be returned in the following order:

- Unsubsidized Federal Stafford loans.

- Subsidized Federal Stafford loans.

- Unsubsidized Direct Stafford loans (other than PLUS loans).

- Subsidized Direct Stafford loans.

- Perkins loans.

- Federal PLUS loans.

- Direct PLUS loans.

If funds remain after repaying all loan amounts, those remaining funds must credited in the following order:

- Federal Pell Grants for the payment period for which a return of funds is required.

- Federal Supplemental Educational Opportunity Grants (FSEOG) for the payment period for which a return of funds is required.

- Other assistance under this Title for which a return of funds is required.

CONSUMER INFORMATION

The Amendments of 1998 require that every participating school provide to prospective and enrolled students a statement of the requirements

- of any refund policy with which the school must comply,

- for the return of SFA Program funds, and

- for officially withdrawing from the school.

CURRENT REFUND REQUIREMENTS

When the Requirements Apply

The SFA refund and repayment requirements apply when a student receives SFA Program funds and withdraws, drops out, takes an unapproved leave of absence, fails to return from an approved leave of absence, is expelled, or otherwise fails to complete the period of enrollment for which he or she was charged.

The SFA refund and repayment requirements do not apply to a student who

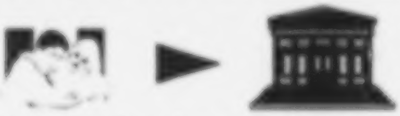
- withdraws, drops out, or is expelled before his or her first day of class (see 34 CFR 668.21, 685.303, and 682.604.)

- withdraws from some classes, but continues to be enrolled in other classes, or

- does not receive SFA Program funds for the period in question. (Students whose parents received a PLUS Loan are considered to have received SFA Program funds and so are covered by the SFA refund and repayment requirements.)

A student has "received" SFA Program funds if a disbursement of SFA Program funds has been made. An SFA disbursement occurs even when a school credits a student's account with institutional funds labeled as SFA Program funds (for more information on SFA disbursements, see Chapter 5). If a student ceases attendance after the account is credited but before the SFA Program funds are actually drawn down, the student is an SFA recipient, and the SFA refund requirements apply. The school must draw down the SFA Program funds, perform any required refund calculations, and return any refund to the proper source. If, however, the entire refund will be returned to the same program from which the draw down will occur, the school may draw down the net amount of funds. For example, institutional funds in the amount of $1000 are credited to a student's account and labeled as Pell Grant funds, creating a Pell Grant disbursement. Before the school draws down the Pell Grant funds, the student withdraws. The Pell Grant is the student's only source of SFA Program funds. The refund due to the Pell Grant Program is $500. The school may modify its draw down request to $500 in Pell Grant funds.

Refund Situation



Student enrolls and pays school charges (tuition and fees, etc.).

Student withdraws from school; school gives refund to student.

Some schools may refer to a return of funds to the SFA Programs for students who do not attend at least one class or who withdraw from some (but not all) classes as a "refund" or "repayment." Also, many schools refer to a "refund" as the direct disbursement to a student (after the school has credited the student's account for institutional costs). But the terms "refunds" and "repayments," as discussed in this chapter, have specific meanings.

A "refund" is the unearned amount of institutional charges that must be returned to the SFA Programs, other sources of aid, and the student, for a student who received SFA Program funds and who has ceased attending school after attending at least one class.

A refund is defined as the difference between the amount paid towards institutional costs (including financial aid and/or cash paid) and the amount the school may retain under the appropriate refund policy.

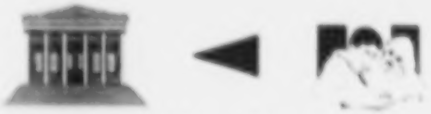
Total Amount Paid
- Amount Retained
= ***REFUND AMOUNT (amount unearned)***
$668.22

Aid Disbursed as Cash
- Living Expenses Incurred
= ***REPAYMENT AMOUNT***
$668.22

A "repayment" is the unearned amount of a direct disbursement to a student that the student (who received SFA Program funds and who has ceased attendance after attending at least one class) must pay back. (Usually, the school will use incoming aid to pay institutional costs and will disburse any remaining aid directly to the student.) If the school determines that the student received a direct disbursement in excess of the living expenses he or she could have reasonably incurred while still enrolled, then a portion of the disbursement was not earned and must be repaid by the student to the SFA Programs.

Repayment Situation

School makes cash disbursement to student at beginning of payment period.



Student withdraws from school; school determines amount of cash disbursement to be returned by student.

Treatment of FWS, FFEL, and Direct Loan Funds

Two other important points: because wages under work-study programs are earned by the student and cannot be recovered, work-study funds are never considered in the refund and repayment process. (However, a recipient of Federal Work-Study funds is an SFA recipient so the SFA refund requirements apply.) Also, FFEL and Direct Loan funds are excluded in the repayment process because the student is already required to repay them to the lender. This is one reason that the school must have a way of determining which program funds were used to credit the student's account and which were paid to the student for living costs.

CONSUMER INFORMATION

A school is required to provide a written statement explaining its refund policies and procedures to prospective students prior to enrollment or prior to execution of an enrollment agreement (or other document that legally binds a student to pay the school), whichever is earlier. This information must also be provided in writing to currently enrolled students, and must include details on how refunds will be calculated and distributed, including an explanation of the various factors that will impact a student's refund (whether the student is a first-time student, what the state policy is, the concept of unpaid charges, etc.). If the school changes its refund policies or procedures at any time, it must provide this information to all current and prospective students. This information may be provided through a school catalog or included in a schedule of fees if these publications are distributed to all current students and prospective students at no charge. A school is not providing the information to all students if it is only including the information in a school newspaper or a flyer that is available on campus.

The school must make examples of common refund situations available, although it is not necessary to provide an example of every possible refund situation. The written statement must inform the student that these examples are available. Additionally, the school must provide a detailed explanation of the procedures a student must follow to receive a refund. Note, however, that an SFA school is required to comply with all SFA refund rules and regulations, regardless of whether students follow the school's required refund procedures or not.

Schools must also publish the student's costs for required supplies and equipment (including books). In addition, schools must substantiate to the Department, upon request, that those costs are reasonably related to the school's cost for those supplies.

FAIR AND EQUITABLE REFUND REQUIREMENT

Every participating SFA school must have a fair and equitable refund policy.

The Higher Education Amendments of 1992 define a "fair and equitable refund policy" as one that provides for a refund of at least the largest amount under

- applicable state law;
- specific refund requirements established by the school's nationally recognized accrediting agency, as approved by the Department, or
- the pro rata refund calculation defined in the Higher Education Amendments of 1992 if the student is attending the school for the first time, and withdrew on or before the 60% point of the period of enrollment for which the student has been charged. (Pro rata refunds are discussed later in this chapter.)

If none of the three options above applies to a particular student, the school must then calculate a refund according to the Federal Refund Policy found in the regulations. The school must compare the Federal Refund Policy refund with the refund amount under its own institutional refund policy (if any), and issue the larger of the two refunds. For each SFA student who does not complete the enrollment period for which they were charged, the school must calculate all applicable refunds to see which is the largest.

First-time Student

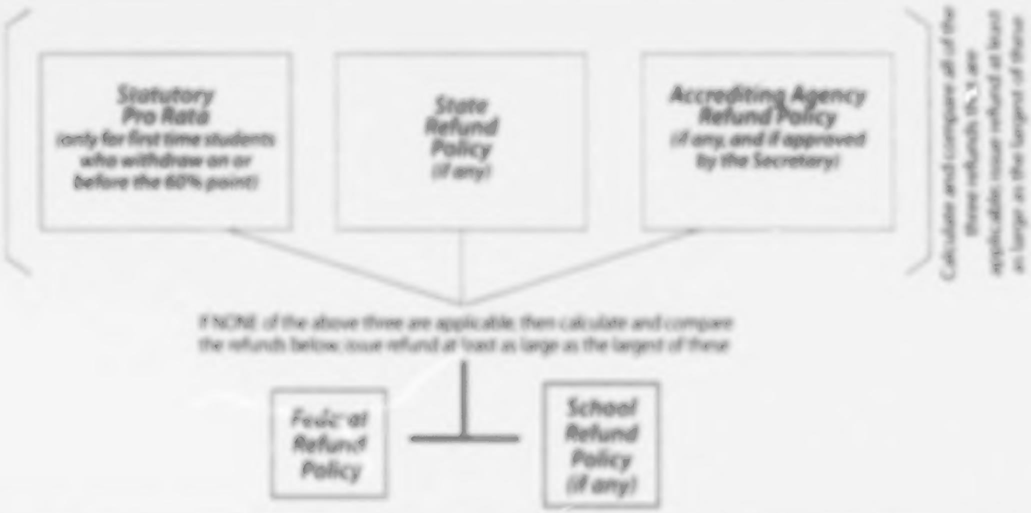
For those SFA students who are first-time students and who withdraw on or before the 60% point in time of the enrollment period for which they were charged, the school must calculate a statutory pro rata refund and compare this amount to the refund amount from the applicable state and accrediting agency policies (if any) to determine the largest available refund to the student. (For more details on pro rata requirements, see page 114.) If both the state and the accrediting agency policies do not exist or are not applicable, the student's refund is the pro rata refund amount.

Continuing Student

If a student is a continuing student (not a first time student) who withdrew, or a first time student who withdrew after the 60% point of the enrollment period for which he or she is charged, the school must calculate the student's refund amounts using the applicable state and accrediting agency policies (if any), compare the resulting refunds, and use the calculation that provides the largest refund. If the state and accrediting agency policies do not exist or are not applicable, the school must calculate the refund under the Federal Refund Policy and the school's policy (if any) and provide the largest refund.

The flowchart below illustrates the various required refund calculations and comparisons that may be required.

Fair and Equitable Refund Requirement


Statutory Pro Rata (only for first time students who withdraw on or before the 60% point)
State Refund Policy (if any)
Accrediting Agency Refund Policy (if any, and if approved by the Secretary)
Calculate and compare all of the three refunds if 1,2,3 are applicable issue refund at least as large as the largest of these
If NONE of the above three are applicable, then calculate and compare the refunds below issue refund at least as large as the largest of these
Federal Refund Policy
School Refund Policy (if any)

The Department must specifically approve an accrediting agency's refund policy before it may be used in the refund comparison. As this publication goes to print, no accrediting agency refund policies have been approved by the Department.

A state refund policy refers not only to laws enacted by the state's legislature, but also to refund regulations of a state agency, if the regulations were established through a legally enforceable regulatory process and carry the force and effect of law. If a school is using a policy as a state refund policy, the school must be able to refer to a state law or state regulation that establishes those refund requirements.

COMPARING TO DETERMINE THE LARGEST REFUND

Let's look at a sample refund situation. St. Mark's Academy (SMA) charges by the 10-week semester. Bob is a first-time student at SMA and received federal SFA Program funds. He withdraws in the third week (3 ÷ 10 = 30%), so the statutory pro rata refund requirements apply. SMA must calculate the student's refund according to its state guidelines (if any), its accrediting agency guidelines (if approved by the Department), and the statutory pro rata requirements.

State Guidelines

SMA's state guidelines allow it to retain institutional costs proportional to the portion of the enrollment period completed by the student. Because Bob attended 30% of the semester, SMA may keep 30% of the institutional costs. (This modified pro rata refund is voluntary, not statutory [i.e., it is not required by federal law]—so it is nonpro rata and must be calculated according to the unpaid charges requirements. The refund regulations require that unpaid charges must be subtracted from the amount retained by SMA, but this issue was effected by litigation. For details on this topic, see page 110.)

Accrediting Agency Guidelines

SMA's accrediting agency refund policy is not approved by the Department. Therefore, calculation and comparison of the accrediting agency refund is not applicable.

Statutory Pro Rata Requirements.

The statutory pro rata rules require SMA to refund institutional costs proportional to the portion of the enrollment period for which the student has been charged that remains, rounded down to the nearest 10%. (Notice that the state policy dictated how much SMA is allowed to retain, but statutory pro rata requirements are written in terms of how much the school must return.) The portion of the enrollment period for which the student has been charged that remains is calculated according to statutory formula (discussed on page 116). Using that formula, SMA calculates that 70% of the enrollment period for which Bob has been charged remains. Accordingly, SMA must refund 70% of institutional costs under the statutory pro rata refund calculation and retains 30%.

Calculating and Comparing the Refunds

In determining which calculation provides the largest refund, it is not enough to simply compare the refund percentages dictated by each policy. The school must completely calculate each refund separately, and then compare the resulting amounts. Even though the state and pro rata refund policies provide for the same percentage refund, the school must perform both calculations and compare, because requirements specific to each policy may affect an individual's refund amount. Also, it is not safe to automatically assume that the statutory pro rata calculation provides the largest refund—that is not always the case.

In addition to the amounts the school is allowed to retain under each policy, SMA needs the following figures to calculate both refunds: (1) total institutional costs, (2) total amount paid to those charges, and (3) Bob's total unpaid charges.

(1) Bob's institutional costs for the semester total $1,500.

(2) Bob received an $850 Federal Pell Grant disbursement and a $300 FSEOG payment; both are credited to cover institutional costs. Bob also made a $200 cash payment. A total of $1,350 was paid toward institutional costs ($850 + $300 + $200 = $1,350).

(3) Unpaid charges are calculated by subtracting the total amount paid to institutional costs from the total institutional costs. Bob's unpaid charges equal $150 ($1,500 - $1,350 = $150). (For a details on unpaid charges and the impact on a refund calculation, see page 109.)

The State Refund Calculation

The state refund policy allows SMA to keep 30% of its institutional costs ($1,500 x .30 = $450). The unpaid charges ($150) must be subtracted from the amount SMA could otherwise retain ($450).

Thus, SMA is actually entitled to retain only $300 ($450 - $150 = $300). SMA then subtracts the amount retained ($300) from the amount paid to institutional costs ($1,350) to figure the refund ($1350 - $300 = $1,050). The refund under the state policy is $1050.

The Statutory Pro Rata Refund Calculation

The statutory pro rata policy dictates that SMA's refund be proportional to the portion of the enrollment period for which the student has been charged that remains, rounded downward to the nearest 10%. As explained previously, 70% of the enrollment period for which Bob has been charged remains, so SMA must refund 70% of the institutional costs ($1,500 x .70 = $1,050). The regulatory requirements regarding unpaid charges do not apply to a statutory pro rata calculation; rather, the statutory pro rata allows SMA to subtract Bob's unpaid charges ($150) from his initial refund amount ($1,050). Thus, the statutory pro rata refund would actually be $900 ($1,050 - $150 = $900).

After calculating all the applicable refunds, the school must use the calculation that provides the largest refund—in this case, it is the state calculation resulting in a refund of $1,050. Of that amount, $850 must be returned to the Pell Grant Program, and the remaining $200 goes to the FSEOG account in accordance with the law and regulations. (For more on the required distribution of refunds and repayments, see page 120.)

Because SMA earned $450 but received only $300, SMA may bill the student for the $150 of unpaid charges.

WITHDRAWAL DATE

A key component needed in order to determine if a refund of institutional costs is required is the date the student stopped attending classes and, therefore, was no longer receiving the instruction for which he or she was charged. This date is generally referred to as the withdrawal date. The withdrawal date is also critical in determining the amount of a student's refund. The General Provisions regulations define the withdrawal date as the earlier of

- the date that the student notifies a school of the student's withdrawal, or the date of withdrawal specified by the student, whichever is later, or

- if the student drops out of the school without notifying the school (does not withdraw officially), the last recorded date of class attendance by the student, as documented by the institution.

In all cases, whether or not the student notifies the school that he or she is withdrawing or has withdrawn, this definition is used to determine a student's withdrawal date by determining the student's last date of class attendance. In some cases, a school may use the last date of attendance as specified by the student; in others, the last date of attendance must be documented by the school. For example:

Scenario 1: For a student who never notifies the school that he or she has stopped attending classes, the withdrawal date is the student's last recorded date of attendance, as documented by the school.

Scenario 2: In those instances when the student informs the school that he or she will stop attending classes at a later date, the last date of attendance may be determined by using the date supplied by the student. If, however, the school has conflicting information and can document that the student attended beyond the date he or she specified, the last date of attendance is the date which the school documented was the student's last day of attendance.

Scenario 3: When a student stops attending classes and subsequently notifies the school that he or she withdrew, the withdrawal date is the last recorded date of class attendance by the student as documented by the school, except that the Department allows a school to use the last date of class attendance as specified by the student. The regulations address such cases by the use of the word "earlier" which acknowledges that two situations could exist for the same student during the same enrollment period. That is, a student who stopped attending classes without notifying the school may, at a later date, notify the school that he or she has withdrawn. The rule requires the school to establish the withdrawal date under both conditions and use the earlier date. Again, if the school has conflicting information and can document a date other than the date he or she specified, the last date of attendance is the date which the school documented was the student's last day of attendance.

CLARIFICATION

To aid schools in the determination of the time frames for the return of funds, the withdrawals described above are characterized here as official withdrawals or unofficial withdrawals (see "Time Frames For Return Of Funds" later in this chapter). For this purpose, a student is considered to have officially withdrawn if he or she notifies the school of his or her withdrawal during the period of enrollment for which the student has been charged. Therefore, Scenario 1 described above is an unofficial withdrawal, and Scenarios 2 and 3 are official withdrawals. A school is required to determine the withdrawal date for an unofficial withdrawal within 30 days of the end of the period of enrollment for which the student has been charged, the academic year, or the program, whichever is earliest.

For a student who is expelled from school or a student who fails to return from an approved leave of absence, (see the discussion on leave of absence on page 101) the withdrawal date is the last date of attendance, as documented by the school. If a student takes an unapproved leave of absence, the withdrawal date is the last date of attendance prior to the leave of absence, as documented by the school.

If a school uses the last date of attendance as provided by the student, and the school has reason to believe that the information provided by the student is inaccurate, it must resolve any conflicting information between the student's statement and its records.

Participating SFA schools are expected to monitor student attendance for the purpose of determining a withdrawal date in cases of unofficial withdrawal. The school must demonstrate that the student has remained in academic attendance through a specified point in time. The school's determination of the student's last day of attendance must be based on an event that the school routinely monitors and must be confirmed by an employee of the school. If these conditions are met, the following are acceptable forms of such documentation: exams, records of attendance, tutorials, computer-assisted instruction, counseling, academic advisement, or study groups.

For a correspondence program, the withdrawal date is normally the date of the last lesson submitted, if the student failed to submit the subsequent lesson on schedule.[1]

APPROVED LEAVE OF ABSENCE

A student who takes an approved leave of absence is considered not to have withdrawn from the school. A leave of absence is approved if

- the student has made a written request for the leave of absence,
- the leave of absence does not exceed 60 days,
- the school has granted only one leave of absence to the student in any 12-month period, and
- the school does not charge the student for the leave of absence.

If a student's leave of absence is not approved or the student fails to return to the school at the end of an approved leave of absence, the student is considered to have withdrawn from the school, and the refund requirements apply.

These leave of absence requirements also affect a student's in-school status for the purposes of deferring SFA loans. A student on an approved leave of absence is considered to be enrolled at the school and would be eligible for an in-school deferment for his or her SFA loans. A student who takes an unapproved leave of absence or fails to return to the school at the end of an approved leave of absence is no longer enrolled at the school and is not eligible for an in-school deferment of his or her loans.

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[1] If within 60 days of the last lesson submission, the student states in writing that he or she wishes to continue in the program and understands that subsequent lessons must be submitted on time, the school may restore the student to in-school status. Only one such restoration can be granted to a particular student.

PERIOD OF ENROLLMENT FOR WHICH THE STUDENT HAS BEEN CHARGED

The refund and repayment amounts are also determined in part by the period of enrollment used in the calculation. The regulations require that a school use the actual period for which the student was charged, with the following minimums:

- For all term programs, use the semester, trimester, quarter, or other academic term.

- For all nonterm programs, for programs that are longer than or equal to the academic year, use the payment period or one-half of the academic year, whichever is greater; for programs that are shorter than the academic year, use the program length.

How the student is billed, such as on an installment or monthly payment plan, does not automatically determine how much the student was "charged." The "period of enrollment for which the student was charged" is the period for which the student is contractually liable by having signed an enrollment agreement or similarly binding document.

If a school charges by different periods for different costs, all charged amounts should be converted to represent the longest period.

CLARIFICATION

DETERMINING INSTITUTIONAL AND NON-INSTITUTIONAL COSTS

A Policy Bulletin, published on the Information for Financial Aid Professionals web site on January 7, 1999, provides clarification of the definition of institutional costs.

The policy bulletin provides specific guidance on how to determine whether a charge is an institutional cost when calculating an institutional refund. That guidance is repeated here:

Institutional versus Non-institutional Costs

When a student receives SFA Program funds to attend a school and subsequently withdraws, drops out, takes an unapproved leave of absence, fails to return from an approved leave of absence, is expelled, or otherwise fails to complete the period of enrollment for which he or she was charged, federal law and regulations require the school to make a timely refund of "unearned tuition, fees, room and board, and other charges" assessed the student by the institution. When a student withdraws, the school must also determine if the student owes a repayment of unearned funds that the school either disbursed to the student directly or, with the student's permission, credited to the student's account to pay for "noninstitutional costs." Tuition, fees, room and board, and "other charges" have been collectively and historically referred to as "institutional costs." However, for the purposes of this guidance, "institutional costs" will hereafter be referred to as "institutional costs" to clarify that institutional and noninstitutional expenses are not defined by whether an actual charge has been made to a student's institutional account. As a general rule, institutional costs are defined as expenses that a school assesses a student for educational expenses that are paid to the school directly.

Since a repayment calculation involves only noninstitutional costs and a refund calculation includes only institutional costs, a critical step in calculating an accurate refund and/or repayment involves determining whether the costs are institutional or noninstitutional.

Common Misconceptions about Institutional Costs

The most frequently asked refund question the Department receives is: May this charge be considered a noninstitutional cost? In the process of defining what may be considered a noninstitutional cost, it seems some institutions have become confused about what constitutes an institutional cost. Therefore, note the following general refund principles about institutional costs.

Refund Principle 1: Most Costs Are Institutional

The most important principle to keep in mind is that current federal law and regulations provide that all tuition, fees, room and board, and other charges a school assesses a student are institutional costs, unless demonstrated otherwise. Thus, a school is never compelled by federal law and regulations to classify a charge as noninstitutional if it wishes to classify the charge as institutional. However, if a school wishes to exclude specific charges or costs from a refund calculation, it must demonstrate that the charges are either noninstitutional costs or are designated as excludable costs under the regulations. Noninstitutional and excludable costs are discussed under "General Guidelines for Defining Institutional Costs."

Refund Principle 2: An Institutional Cost Does Not Need To Be Assessed to all Students

Institutions sometimes mistakenly assume that a charge is not an institutional cost because it was not assessed to all students, or the charge was not included in the enrollment agreement. For example, the regulations in 34 CFR 668.22(c)(5)(i) and (d)(3)(i) provide general guidance that "other charges assessed the student by the school include, but are not limited to" all items issued by the school to the student when those charges are specified in the enrollment agreement as separate charges. However, it should be noted that the regulations recognize that other charges are not limited to items that are listed in the enrollment agreement. While a charge must be assessed to all students carrying the same academic workload to be considered an allowable cost of attendance, and SFA Program funds may only be used to pay allowable cost of attendance charges, it is not true that a charge must be assessed to all students, or be listed in an enrollment agreement, to be considered an institutional cost for refund purposes.

Refund Principle 3: Institutional Costs May or May Not Be Charged to a Student's Account

Note the following points about institutional costs:

1. All charges to a student's account are not necessarily institutional costs.

With the student's permission, a school may credit a student's account with SFA Program funds to pay for noninstitutional costs. Consequently, if a student withdraws from the school with charges for noninstitutional costs on his or her account, the school must use those charges to determine if the student owes a repayment. Specific charges that may be classified as noninstitutional costs are defined in the discussion on "General Guidelines for Defining Institutional Costs."

2. Charges that do not appear on the student's institutional account may still be instiutional costs.

For example, a student does not have to charge the purchase of required course materials to his or her institutional account for the course materials to be classified as "institutional costs." If a school disburses funds to a student to buy equipment that he or she is required to have by the first day of class, but the disbursement is so late that the student only has time to purchase the equipment at the school, those costs must be classified as institutional costs because the student does not have "a real and reasonable opportunity" to purchase the equipment from someplace other than the school.

General Guidelines for Defining Institutional Costs

The following educational expenses must be considered institutional costs:

- All charges for tuition, fees, and room and board (if contracted with the institution); and
- Expenses for required course materials, if the student does not have a "real and reasonable opportunity" to purchase the required course materials from any place but the institution.

Exceptions

The total amount of all institutional costs must be used in the calculation of a refund, including the calculation of unpaid charges, if they are specifically designated as excludable.

"Excludable" costs are defined as costs that the regulations permit a school to exclude from the total amount of institutional costs when calculating a refund, such as an administrative fee (34 CFR 668.22(c)(4) and (d)(2)), documented cost of unreturnable equipment, and the documented cost of returnable equipment, if not returned in good condition within 20 days of withdrawal (34 CFR 668.22(c)(5)(ii) and (d)(3)(ii)).

Noninstitutional costs include:

- A charge for any required course materials that a school can document are noninstitutional because the student had "a real and reasonable opportunity" to purchase them elsewhere (See the discussion that follows.);
- A charge to the student's account for room charges that are collected by the school but are "passed through" to an unaffiliated entity;
- A charge to student's account for group health insurance fees, if the insurance is required for all students and the coverage remains in effect for the entire period for which the student was charged, despite the student's withdrawal; or
- A charge to a student's account for discretionary educationally related expenses (e.g., parking or library fines, the cost of athletic or concert tickets, etc.).

Demonstrating "Real and Reasonable Opportunity"

Final regulations published November 29, 1994, provided an exception to the refund rules to allow a school to treat certain charges as noninstitutional costs when the school can show that its students have the option of obtaining required course materials from the school or receiving payment of the funds from the school to purchase the items from alternative sources.

This exception was discussed in the preamble discussion to the November 29, 1994 regulations on page 61163:

> If a school does not have a separate charge for equipment and the student has the option [emphasis added] of purchasing the equipment from more than one source, the school would not have to include the equipment charge in the pro rata calculation.

With regard to this exception, note that if an school wishes to classify the cost of required books, supplies, and equipment as noninstitutional costs, it must be able to substantiate that an option actually existed for its students. For example, the school must be able to demonstrate that: 1) the required course materials were available for purchase at a relatively convenient location unaffiliated with the school; and 2) the school did not restrict the availability of financial aid funds, so its students could exercise the option to purchase the required course materials from alternative sources.

A school would not be able to demonstrate that a student had a real and reasonable opportunity to purchase his or her required course materials from alternative sources if one of the following is true:

- The required course materials are not available elsewhere (i.e., they were only available at the institution), or they are not conveniently available for purchase from another vendor unaffiliated with the institution;

- When financial aid is available to the school for disbursement to the student, the school does not make those funds available to the student in time to purchase the required materials from another vendor before those materials are required for academic purposes;

- The institution's practices do not allow or discourage a student (e.g., the use of vouchers that are only good at the campus bookstore or the late disbursement of funds to students to pay for noninstitutional costs) from exercising his or her option to purchase the required course materials from another vendor; or

- The school has the student sign a statement saying that the student has the option to purchase course materials from someplace other than the school, but the school is unable to document that an option truly existed.

Excludable Institutional Costs

The regulations also allow institutions to exclude the following costs from pro rata and Federal refund calculations if the school's return policies are reasonable, consistent, and fair to all students, and students were notified, in writing, of the school's policies when they enrolled.

- An administrative fee (up to $100 or 5% of the total institutional costs, whichever is less);

- The institution's documented cost for nonreturnable equipment; and

- The institution's documented cost of returnable equipment, if not returned in good condition within 20 days of withdrawal.

Note that the school is responsible for demonstrating that its policy on nonreturnable equipment is reasonable, consistent, and fair to students. For example, it is not reasonable or fair to students to classify all used books or equipment as nonreturnable. A school must be able to demonstrate that there are specific circumstances that would prevent the school from selling the books or equipment to other students. Also, if the institution's students are not notified in writing about the school's return policy when they enroll or the policy is not consistent with federal regulations on excludable costs, the school may not exclude the documented cost of books, supplies, and equipment from any refund calculations.

Applying the Rules: Is this an Institutional Cost?

To see how the guidelines for defining institutional costs can be applied, consider how a school would determine whether a charge for tools is noninstitutional or institutional. A student is required to purchase certain types of high quality tools for his program of study by the first day of class. The institution's enrollment agreement does not contain a charge for the tools, and it does not say that the student is required to purchase the tools from the school or a vendor affiliated with the school. The required tools are available for purchase from the school and from a retailer across the street from the school. As a routine practice, the school obtains permission to credit all financial aid to students' institutional accounts, and establishes a line of credit for students at the campus bookstore so they can purchase the required tools by the first day of class. All students buy the tools at the campus bookstore and charge the purchase to their institutional accounts.

The first step would be to determine if the purchase of the tools falls under the category of expenses that are generally considered institutional costs. Although the cost of the tools is not listed as a charge in the student's enrollment agreement, the school requires the student to purchase the tools for his program of study. Therefore, as a general rule, the tool charges will be considered institutional costs. However under the exceptions rule, the tool charges may be considered noninstitutional if the school can document that its students had a "real and reasonable opportunity" to purchase the tools from someplace other than the institution. The real and reasonable test would be if the school could demonstrate the following: 1) the tools were available for purchase elsewhere; 2) the school made financial aid available to students in time to purchase the tools from another vendor before the first day of class; and 3) the institution's practices provide students with an equal opportunity to purchase the tools from the campus bookstore or the retailer across the street.

In this case, the school meets the first criterion: the tools are available at the store across the street, so an opportunity could exist. However, the school fails to satisfy the second and third criteria because the institution's routine practice of crediting students' accounts with all financial aid, and extending lines of credit for purchases at the campus bookstore, does not allow its students the option of purchasing the required tools from the retailer across the street. Therefore, the only choice this institution's students have is to purchase the tools at the campus bookstore. As a result, the cost of the tools must be classified as institutional costs.

Summary

The following summarizes the key points for determining institutional and noninstitutional costs:

1. Institutional costs are defined as charges that a school assesses a student for educational expenses that must be paid to the school directly.

2. A school either disburses financial aid to the student directly to pay for noninstitutional costs, or the school may, with the student's permission, credit the student's account to pay for noninstitutional costs.

3. Institutional costs are used to calculate institutional refunds.

4. Noninstitutional costs are used in repayment calculations.

5. Current federal law and regulations governing institutional refunds provide that all tuition, fees, room and board, and other charges a school assesses a student are institutional costs, unless demonstrated otherwise.

6. If a school wishes to exclude specific charges or costs from a refund calculation, it must demonstrate that the charges are either noninstitutional costs or are excludable costs under the regulations.

7. An institutional cost does not have to be charged to all students or be listed as a charge in an enrollment agreement to be classified as an institutional cost.

8. All charges to a student's account are not necessarily institutional costs.

9. If a charge does not appear on the student's institutional account, it may still be an institutional cost.

10. Tuition, fees, room and board (if contracted with the institution) are always institutional costs.

11. Expenses for required course materials are institutional costs, if the student does not have a real and reasonable opportunity to purchase the required course materials from any place but the school he or she is attending.

12. The total amount of all institutional costs must be used to determine the student's unpaid charges and the refund due the student.

13. If a school wishes to classify the cost of required course materials as noninstitutional costs, it must be able to substantiate that: 1) the required course materials were available for purchase at a relatively convenient location unaffiliated with the school; and 2) the school made financial aid funds available to students in a timely manner, so its students could exercise the option to purchase the required course materials from alternative sources.

14. "Excludable" costs are costs that the regulations permit a school to exclude from the total amount of institutional costs when calculating a refund, such as an administrative fee, documented cost of unreturnable equipment, and the documented cost of returnable equipment, if not returned in good condition within 20 days of withdrawal.

15. Noninstitutional costs include: charges for any required course materials that a school can document are noninstitutional because the student had "a real and reasonable opportunity" to purchase them elsewhere; a charge to the student's account for room charges that are collected by the school but are "passed through" to an unaffiliated entity; a charge to student's account for group health insurance fees, if the insurance is required for all students and the coverage remains in effect for the entire period for which the student was charged, despite the student's withdrawal; and a charge to a student's account for discretionary educationally related expenses (e.g., parking or library fines, the cost of athletic or concert tickets, etc.)

UNPAID CHARGES

Before calculating a refund, schools must first determine the student's unpaid charges, according to the regulatory formula given below. The "Unpaid Charges" amount is used differently in nonpro rata refunds than it is in pro rata refunds, but the unpaid charges calculation is exactly the same, no matter what type of refund is involved:

Total Institutional Costs for the Enrollment Period
− Total Aid Paid to Institutional Costs

= ***Student's Scheduled Cash Payment (SCP)***
− Student's Cash Paid

= ***UNPAID CHARGES***

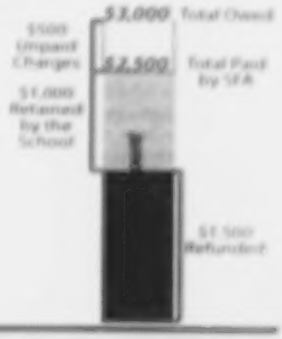
A school may choose to request any late SFA disbursements or permissible late disbursements of state student aid for which the student is still eligible and will receive in spite of having withdrawn. Note that if a school elects to receive a late disbursement, the late disbursement must be taken into account when determining the total aid received. The late disbursement amount should be counted in "Total Aid Paid to Institutional Costs." (For more on late disbursements, see page 111.)

For all refunds other than a statutory pro rata refund required by law, any unpaid charges must be subtracted from the amount the school could otherwise retain, as shown below. (However, the applicability of this requirement to state calculations was under litigation; see page 110.)

Unpaid Charges Example

AnneMarie's institutional costs for the semester total $3,000. SFA pays for $2,500. Her scheduled cash payment is $500 ($3,000 - $2,500 = $500). AnneMarie withdraws without making any payments. Therefore, her unpaid charges equal $500. The school's state policy allows it to retain 50% of the total school costs ($3,000 x .50 = $1,500).

The unpaid charges rule requires that the school subtract AnneMarie's unpaid charges from the amount it could otherwise retain ($1,500 - $500 = $1,000). Thus, the school would refund $1,500 ($2,500 paid - $1,000 retained = $1,500 refund).



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This treatment of unpaid charges reaffirms the principle that the student is primarily responsible for financing his or her own education.

In a nonpro rata refund situation, if the student's unpaid charges are equal to or greater than the amount that can be retained by the school, then the school must return all of the SFA Program funds (other than FWS) that were used to pay institutional costs. Also, if the school is not able to retain the full amount allowed under the applicable refund policy, it may collect the remaining balance from the student (the unpaid charges amount). If there are no unpaid charges, the school may retain the full amount allowed and cannot charge the student for any additional amount. (The underlying assumption is that the school is entitled to get only the money it earned during the student's enrollment, as determined by the applicable refund policy.)

After the refund is calculated, if a student who is due to receive directly a portion of a refund owes unpaid charges to the school, the school may automatically credit the refund amount to the student's account up to the amount owed by the student. If a school chooses to implement this policy, it must publicize it as part of its written refund statement provided to current and prospective students. In addition, the school must notify a student in writing when any portion of the refund that was due the student is applied to unpaid institutional costs.

As stated previously, the "Unpaid Charges" total is used differently in the statutory pro rata refund calculation. For details, see "Pro rata Refund Calculations" on page 114. (Note that if the school voluntarily elects to calculate a pro rata refund in situations where it is not required by federal law—such as if the school's state guidelines require it—it is a nonpro rata refund. As explained above, the unpaid charges must be subtracted from the amount the school could otherwise retain.)

"Dear Colleague" letter GEN-95-22 (DCL), published April 1995, provided information on litigation of the "unpaid charges" rule as it relates to the calculation of state refunds. The DCL stated that the courts have imposed a preliminary injunction against the Department prohibiting it from enforcing certain provisions of the regulations until the lawsuits are resolved. The DCL stated that the Department will limit the scope of program reviews and audits (provided the school was and is in compliance with all other aspects of the refund regulations) as follows:

For refunds calculated prior to November 28, 1994 (the date of the first preliminary injunction): Program reviews and audits will determine and report on whether state refund calculations incorporate the treatment of unpaid charges; however, no monetary liabilities will be assessed while the injunctions are in effect.

For refunds calculated on or after November 28, 1994 (until further notice): The Department will not assess any liabilities against schools that calculate refunds under the state policy and do not include the treatment of unpaid charges.

At this time, the guidance issued in DCL GEN-95-22 remains in effect.

AID "RECEIVED"

To calculate a student's refund, a school must use the amount of aid received by the student as of his or her withdrawal date. As mentioned earlier, a student has "received" SFA program funds if a disbursement of SFA Program funds has been made (for information on disbursements, see Chapter 5).

CLARIFICATION

A school may not retroactively change the amount of any disbursement of aid or funds received from the student as of the date of withdrawal. When determining the amount of aid received, a school must consider late disbursements, credit balances, and institutional scholarships and loans.

Late Disbursements

A student who withdraws or otherwise ceases attendance has lost SFA eligibility and generally may not be paid further funds for the enrollment period. However, in some cases, a late disbursement may be made. A late disbursement may affect the refund calculations. (For more information on late disbursements, see Chapter 5.)

In the past, schools have sometimes used their institutional refund policy to determine what institutional costs could reasonably have been incurred. Because the late disbursement amount is a factor in the refund calculation, this method doesn't work well. Therefore, the Department recommends that schools simply determine, prior to calculating any refund amounts, what educational costs exist (for the period charged) that have not been satisfied by the student or by other sources of aid.

For instance, if institutional costs for the enrollment period total $2,000, and at the time of withdrawal only $1,500 had been paid, then institutional costs of $500 exist. Assuming the student is otherwise eligible, a late Pell disbursement of $500 could be credited to the student's account. (Even if the student was eligible for a larger Pell Grant, only $500 could be credited to institutional costs. Any remaining Pell funds for which he was eligible could be disbursed to the student, but only for noninstitutional costs incurred.)

Once a school determines the student's reasonably incurred costs, it can calculate how much if any late SFA Program funds may reasonably be disbursed to the student. (Some states also allow late disbursements of state aid in certain circumstances.) Schools should determine late disbursement amounts prior to any refund or repayment calculations. Schools should develop a policy for such determinations and must ensure that the policy is consistently applied to all withdrawal situations that involve a late disbursement of SFA and state funds.

When calculating a refund, any SFA late disbursement amount that will be credited to institutional costs must be counted as already paid toward institutional costs, thereby reducing the student's scheduled cash payment and unpaid charges. (For more on unpaid charges, see page 109.) The repayment calculation should also consider late disbursements of SFA Program funds that will be paid directly to the student for living expenses (in the case of a student's institutional costs being paid in full).

Late disbursements of state aid may also be counted as already paid toward institutional charges, thereby reducing the student's scheduled cash payment and unpaid charges, under the following circumstances:

- the late disbursement is made according to the state's written late disbursement policies, and the student is eligible for the disbursement in spite of having withdrawn, and

- the disbursement is made within 60 days of the student's withdrawal. (If the late disbursement of state aid does not come in within 60 days, the school must recalculate the SFA refund and return any additional amounts to the appropriate SFA accounts or the lender as required.)

Late disbursements of aid from sources other than the federal SFA Programs or applicable state aid may not be counted as already paid for purposes of the SFA refund and repayment calculations. Generally, all earned aid disbursements will have been received by the time a student's SFA refund and repayment amounts are calculated. In the rare case that a student aid payment from another source is received after the SFA refund and repayment have been calculated and processed, the funds should be handled according to the policies of the agency or entity providing the aid. In many cases, the student will still have unpaid charges or unmet living expenses for which the aid may be used.

Credit balances

Credit balances are handled separately from the refund and repayment process. Before calculating a student's refund, a school must resolve any existing credit balance. If a student who withdraws has a credit balance, the school may determine if the student has incurred noninstitutional costs that have not been paid by other sources of aid. If the school does determine that such noninstitutional costs exist, the school may disburse to the student directly the portion of the credit balance needed to cover the incurred costs. If such noninstitutional costs do not exist, or the full amount of the credit balance is not needed to cover the costs, the school must return the balance to the SFA Programs. FFEL funds would be returned to the lender; Pell and Direct Loan funds would be returned to the appropriate school accounts (with corresponding adjustments to disbursement records sent to the Department); and FSEOG and Perkins Loan funds would be returned to the appropriate accounts at the school, for possible awarding to other students.

Obviously, a school will have to determine which SFA Program funds created a credit balance before it can return funds to the SFA Programs. At this time, the Department does not specify how a school must determine which SFA Program funds create a credit balance. However, the Department encourages schools to return SFA Program funds to loan programs first to reduce the likelihood of default. (For more information on credit balances, see Chapter 5.)

The Department does not address the treatment of credit balances that are created by non-SFA Program funds. However, under the current refund requirements, when a student withdraws, all credit balances must be eliminated before a refund calculation is performed.

Institutional Scholarships and Loans

CLARIFICATION

An institutional scholarship that is applied up-front may not be regarded as contingent upon the student's completion. Once an institutional scholarship has been credited to a student's account, it must be counted in the refund process as having been received and the school may not retract the scholarship after the student withdraws to keep it out of the refund calculation.

Note that if a school awards institutional scholarships to all students who attend or graduate from the school, the part of the tuition charge that is covered by the institutional scholarship is not considered a real charge for SFA purposes. This is because the law defines the tuition and fees component of the student's cost of attendance as "tuition and fees normally assessed a student carrying the same academic workload..." If every student receives a scholarship, then no student who completes the program ever pays the stated tuition and fee charges.

If a school has an installment payment agreement with the student which extends beyond the enrollment period, such that payments toward an unpaid balance would not be considered due at the time the refund calculation is performed, the school must nevertheless consider the unpaid balance as a scheduled cash payment that offsets the amount that the school may retain. It does not matter whether or when the school considers the balance due from the student.

The school may, however, set up a payment plan whereby the student's charges are covered in full by an institutional loan. If the student owes money on the loan at the point he or she withdraws, the amount owed on the loan does not constitute unpaid charges. The school's accounting procedures and records must clearly support the claim that the institutional loan was in fact made at or near the time of enrollment and that those loan funds paid the institutional costs in full. All standard lending procedures must have been followed by the school and the student. In that case, the institutional loan is treated as institutional aid received. However, it is inappropriate to establish such an arrangement after the student's withdrawal. A school may not retroactively adjust its records to reflect that an institutional loan has covered all institutional costs when in fact that arrangement did not exist at the time of the student's enrollment.

PRO RATA REFUND CALCULATIONS

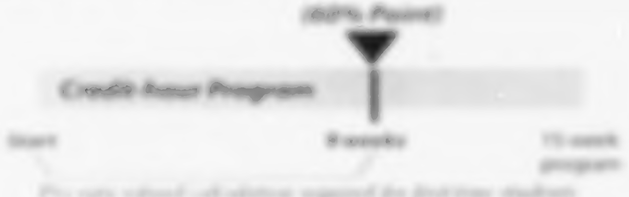
The 1992 Amendments' "fair and equitable" refund requirement (including pro rata) apply to all participating SFA schools. A statutory pro rata calculation is required if the student received SFA Program funds and both of the following conditions apply:

- The student is a first-time student. "First-time student" is defined in the regulations as any student who has not attended at least one class at your school, or who received a full refund (less any allowable administrative fees) for previous attendance at your school. Prior attendance at another postsecondary school does not preclude a student from being a first-time student at your school. A student remains a first-time student until he or she either ceases attendance after attending at least one class, or completes the period of enrollment for which he or she has been charged.

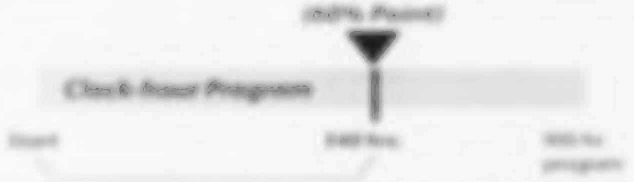
- The student withdrew on or before the 60% point in time of the enrollment period for which he or she was charged.

For credit-hour programs, this is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when the student completes 60% of the hours scheduled for the enrollment period for which the student has been charged.

60% Point of Enrollment



Pro rata refund calculation required for first-time students who receive SFA and withdraw during this period



Pro rata refund calculation required for first-time students who receive SFA and withdraw before completing this number of hours

If both of the above conditions apply to the student in question, then a statutory pro rata refund must be calculated and compared to other applicable refunds (state and/or accrediting agency).

However, if the school has no applicable state or accrediting agency policies, no refund comparisons are required for any first-time student who withdrew on or before the 60% point in the enrollment period for which the student has been charged. The only applicable option for these students is pro rata, so no other calculation is necessary. For all other SFA students at a school with no applicable state or accrediting agency policies (those who are not both first-time and have withdrawn on or before the 60% point in the enrollment period for which the student has been charged), the school would have to calculate a Federal Refund Policy refund and an institutional refund, compare the two, and issue the largest refund.

As mentioned in the discussion of institutional and noninstitutional costs (see page 105), some different rules apply when calculating a pro rata refund. Some institutional costs can be excluded from the proration that results in the refund amount. Therefore, the amount of institutional costs that is used in a nonpro rata refund calculation may be different than the amount used for a pro rata calculation. The following amounts may be excluded from the institutional costs used to calculated a pro rata refund:

- A reasonable administrative fee, not to exceed $100 or 5% of the total institutional costs, whichever is less. This does not have to be an actual fee; a school may exclude an administrative fee (within the *above* limits) without specifically identifying it as a separate charge.
- The documented cost to the school (in other words, what the school paid for the items) of any unreturnable equipment issued to the student or any returnable equipment that was not returned in good condition within 20 days after withdrawal.

The school must indicate clearly (as part of the written statement explaining its refund policies to students) that a withdrawing student's refund will be reduced by the exclusion of an administrative fee from the refund calculation.

The school must notify the student in writing prior to enrollment that return of equipment will be required within 20 days of withdrawal. Also, the school must disclose in the enrollment agreement any restrictions on the return of equipment, including the identification of unreturnable items. The school cannot delay the payment of a refund by reason of the equipment return process.

A school may determine whether equipment may be returned to be reissued. However, a school is responsible for demonstrating that its policies for unreturnable equipment are reasonable, consistent, and fair to the student.

The school is entitled to bill the student for any of the charges discussed above that were excluded from the pro rata calculation and that were left unpaid. The school is entitled to retain 100% of those costs, and if they were not paid in full by the student or other sources, the school is entitled to bill the student. A school may also bill a student for any unpaid noneducational charges, such as an application fee. These charges are excluded entirely from the refund calculations because they cannot be paid for with SFA Program funds.

Another step unique to the pro rata refund calculation is the determination of the "portion that remains." Under a pro rata refund, the school must refund an amount proportional to the portion of the enrollment period for which the student has been charged that was not completed by the student. This "portion that remains" percentage is calculated using the following formula and may be rounded down to the nearest 10%.

To Determine the Portion that Remains

Schools that use credit hours

Weeks remaining
Total weeks in period

Schools that use clock hours*

Hours remaining to be completed
Total hours in period

Correspondence course

Lessons not submitted
Total lessons in period

*Excused absences count as hours completed

Note that, because of the required rounding, this "portion that remains" figure will not necessarily correspond to the "percentage point in time" used to determine if a student withdrew on or before the 60% point. For instance, if a student withdraws at the 35% point in time, the portion that remains—65%—would be rounded down to 60%.

As a general rule, the Department has always allowed clock-hour schools to count excused absences when determining hours completed by the student if the school has a written excused absence policy allowing for a reasonable number of absences which do not need to be made up to complete the program, and if the school can document that the hours were actually scheduled and missed by the student prior to the student's withdrawal.

However, the "cash management" regulations published November 29, 1996 were more specific as to the number of excused absences that could be counted when determining completed hours for purposes of determining disbursements of SFA Program funds.

permit clock-hour schools to count excused absences of no more than 10% of the clock hours in the payment period as completed hours.

For consistency, the 10% limit applies to refund calculations made on or after July 1, 1997 (the effective date of the cash management regulations) except that schools may count excused absences of no more than 10% of the clock hours in the period of enrollment for which the student has been charged (rather than the payment period) as completed hours. If a school's accrediting agency or state agency permits fewer excused absences, the school must use the number permitted by their accrediting or state agency.

The rest of the guidance stated above (for a written policy and documentation) still applies. So does the requirement that, if the student takes some excused absences, then returns for more classes, and then takes additional excused absences, the school can only count those excused absences that were followed by some class attendance. In other words, the school cannot count anything after the student's last day of actual attendance.

Finally, the pro rata refund calculation differs from all nonpro rata calculations in that the "unpaid charges" total is treated differently. Instead of being subtracted from the amount the school may retain, the unpaid charges are subtracted from the refund amount. Thus, a portion of the refund goes to pay the student's unpaid charges instead of being returned to the SFA Programs.

If the initial SFA refund is equal to or greater than the student's unpaid charges, the school will be able to retain the full amount allowed and cannot bill the student for any additional funds. However, in the rare case that the statutory pro rata refund due is less than a student's unpaid charges, the school may bill the student for the remaining amount. For instance, assume a student's statutory pro rata refund was calculated at $800, but his unpaid charges totaled $900. Assuming the pro rata calculation was the only applicable refund for the student, the school could keep the entire refund and bill the student for the remaining $100. (For more information on unpaid charges, see page 109.)

FEDERAL REFUND POLICY CALCULATIONS

As stated previously, a school must calculate for any SFA student a maximum of three refunds and compare those to determine the largest applicable refund for the student. Those three refunds are (1) a statutory pro rata refund, if applicable, (2) a state refund, if state standards exist, and (3) an accrediting agency refund, if the agency's policy is approved by the Department. If none of the three options above apply to a particular student, the school must then calculate a Federal Refund Policy refund, compare it with the refund calculated under the school's own institutional refund policy, if any, and issue the larger of the two refunds. Because a Federal Refund Policy refund is a nonpro rata refund, the school must subtract any unpaid charges from the amount that it could otherwise retain. (See page 109 for more on unpaid charges.)

The Federal Refund Policy mandates the percentage of institutional costs that must be refunded as follows:

- withdrawal on the first day of class—100% refund of institutional costs (less the permitted administrative fee of the lesser of $100 or 5% of institutional costs).
- withdrawal after the first day of class through the first 10% of the enrollment period for which the student has been charged—90% refund of institutional costs.
- withdrawal after the first 10% of the enrollment period for which the student has been charged through the first 25% of the enrollment period for which the student has been charged—50% refund of institutional costs.
- withdrawal after the first 25% of the enrollment period for which the student has been charged through the first 50% of the enrollment period for which the student has been charged—25% refund of institutional costs.

Schools should note that if a student withdraws before his or her first day of class, SFA Program funds may not be used to pay any portion of a student's educational costs, no matter what refund policy a school uses for that student. A school may bill the student for any costs incurred within the bounds of any limits set by the state, accrediting agency, etc.

As with the pro rata refund policy, a school may exclude from the institutional costs used to calculated the Federal Refund Policy refund a reasonable administrative fee, not to exceed $100 or 5% of the total institutional costs, whichever is less. A school may also exclude the documented cost to the school of any unreturnable equipment issued to the student or any returnable equipment that was not returned in good condition within 20 days after withdrawal. (See page 115 for more details.)

REPAYMENT CALCULATIONS

A different situation may occur—repayment—when a student received SFA Program funds as a disbursement to cover living expenses. Living expenses are defined as education costs above and beyond the tuition and fee charges, including items such as room and board (if the student does not contract with the school), books, supplies, transportation, and childcare expenses.

When a student who received directly an SFA disbursement ceases attendance, the school must determine whether the student must repay a portion of the disbursement. If the school finds that the student's living expenses incurred up to the time of withdrawal exceed the amount of funds disbursed, the student does not owe a repayment. However, if the disbursement was greater than the student's living expenses up to the withdrawal date, the student must repay the excess amount.

Remember, as with refunds, FWS wages are excluded because they have been earned. FFEL and Direct Loan funds are not counted in figuring the amount of the repayment (because the student is already obligated to repay these funds to the lender).

The school is responsible for notifying the student of the amount owed, for billing the student, and for collecting the repayment. However, a school is not liable for the owed amount if it cannot collect the repayment from the student. In such a case, the student is ineligible for further SFA Program funds, and must be reported as being in overpayment status on the financial aid transcript or submissions to the National Student Loan Data System (NSLDS).

A student who fails to repay Pell or FSEOG funds can be referred to the Department for collection purposes, unless the overpayment is the result of school error. In addition, the student's failure to repay the Pell or FSEOG funds must be reported to the NSLDS. The Department will refer the account to its collection agent, and the student's record will be placed in a subsystem database match of the Central Processing System (CPS). Until the overpayment is resolved, the CPS will flag any future FAFSA filed by that student; on the resulting output record, comments will explain the overpayment owed and will instruct the school and student in resolving the matter. See the *SFA Handbook: Student Eligibility* for information on referring overpayment cases to the Department, and information on the NSLDS.

REFUNDS OF $25 OR LESS AND REPAYMENTS UNDER $100

A school does not have to pay a refund of $25 or less. However, because a refund returned to an SFA loan program would reduce the amount of the loan that a student would have to repay, a school may not keep any portion of a refund that would be distributed to an SFA loan program unless the school has written authorization from the student in the enrollment agreement to do so. The enrollment agreement must explain clearly that the student is permitting the school to keep the funds, rather than having the funds used to reduce the student's debt, should the student withdraw.

A school is not required to actually calculate the refund to prove that it is $25 or less if it can demonstrate that the institutional costs are so low that no refund would exceed $25.

Also (unless otherwise provided for in regulations for a specific SFA Program), if the amount of a repayment is less than $100, a student is considered not to owe the repayment, and the school is not required to contact the student or recover the repayment.

ALLOCATING REFUNDS AND REPAYMENTS

Refund and repayment amounts must be distributed according to a specific order of priority prescribed in the law and regulations. The school's refund or repayment allocation may not deviate from the prescribed order, even if the school's agreement with a state or private agency requires the school to return a specific percentage of the aid provided by that agency. Federal laws and regulations supersede all other requirements and must be followed.

Note that a school must allocate a refund or repayment in the order specified even if all SFA Program funds were disbursed to the student to cover noninstitutional costs. For example, the only SFA Program funds that a student receives is an $800 Stafford Loan. The school disburses the $800 Stafford Loan directly to the student to cover some of the student's noninstitutional costs. The student's institutional costs are covered by other sources. When the student withdraws, the school uses the SFA refund requirements to determine that the refund is $600. This $600 must be returned to the Stafford Loan.

Refunds on behalf of SFA recipients must be distributed in the following order:

1. Unsubsidized Federal Stafford Loans
2. Subsidized Federal Stafford Loans
3. Federal PLUS Loans
4. Unsubsidized Federal Direct Stafford Loans
5. Subsidized Federal Direct Stafford Loans
6. Federal Direct PLUS Loans
7. Federal Perkins Loans
8. Federal Pell Grants
9. FSEOGs
10. Other SFA Programs
11. Other federal, state, private, or institutional sources of aid
12. The student

Repayments from SFA recipients must be distributed as follows:

1. Federal Perkins Loans

2. Federal Pell Grants

3. FSEOGs

4. Other SFA Programs

5. Other federal, state, private, or institutional sources of aid

CLARIFICATION

When returning funds to "other federal, state, private, or institutional sources of aid", the funds must first be returned to any federal sources.

Funds returned to any SFA Program may not exceed those received from that program. However, in some cases, if the school returns the required amount of the refund, the entire outstanding balance of the loan will be eliminated because the holder of the loan will pay off a portion of the loan balance.

If the amount of a FFEL that is delivered to a student (the net amount) is returned by the school or the student within 120 days of the date the lender disbursed the loan, the lender must return any deducted origination fees and insurance premiums to the student's account. Similarly, if the amount of a Direct Loan that is disbursed to a student is returned by the school or the student within 120 days of the disbursement, the Department must return any deducted loan fees to the student's account.

In addition, if the amount of a FFEL that is delivered to a student is returned by the school (not the student) after 120 days of the date the lender disbursed the loan, the lender must return any deducted origination fees and insurance premiums to the student's account. The same is not true for Direct Loans. If a Direct Loan is repaid in full by either the school or the student after the 120 days, the deducted loan fees are not returned to the student's account.

After making the refund for FFEL and/or Direct Loan funds, any additional refund amounts should be distributed to other sources of aid in the required order.

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A school may use its own funds to eliminate remaining FFEL balances for a period of enrollment if a refund results in the school returning less than the amount needed to eliminate the loan balance. The Department has determined that a school may use its own funds to eliminate remaining Direct Loan and Perkins Loan balances as well. A school may contribute its own funds at the time of the distribution of the refund only. A school may not use its own funds to eliminate any portion of a loan balance after the refund has been made, or if no refund is required toward the balance on the loan. For example, a school may not use its own funds to pay off a balance on the distribution of the refund only. A school may not use its own funds to eliminate any portion of a loan balance after the refund has been made, or if no refund is required toward the balance on the loan. For example, a school may not use its own funds to pay off a balance on a Perkins Loan unless some portion of the refund is required to be paid toward the balance of the Perkins Loan. For unsubsidized loans where interest has already accrued when the student withdraws, a school may pay off the accrued interest only if the school determines the exact amount of the accrued interest for the period of enrollment.

TIME FRAMES FOR RETURN OF FUNDS

The regulations establish deadlines for the return of funds to the SFA Programs and to a student. In addition, schools are required to determine the withdrawal date for unofficial withdrawals by a certain time. The chart on the next page lists the time frames for the return of funds when a refund occurs.

A repayment must be returned to the appropriate SFA Program accounts within 30 days of the date the student repays the funds.

PENALTIES FOR FAILURE TO PAY REFUNDS

Criminal Penalties

Any person who knowingly and willfully fails to refund (or attempts to fail to refund) SFA Program funds will be fined up to $20,000 or imprisoned for up to 5 years, or both. However, if the amount failed to be refunded is $200 or less, the person will be fined up to $5,000 or imprisoned up to one year, or both.

Amendments of 1998

Additional Penalties

The Amendments of 1998 added a provision that allows the Department to assess a penalty, equivalent to the penalty applicable to nonpayment of taxes, in instances where an individual who exercises substantial control over a school willfully fails to pay a refund amount owed on behalf of a student or borrower to a lender or the Department. This provision applies to any unpaid refunds first required to be paid on or after 90 days after October 7, 1998. This penalty may be in addition to other penalties provided by law.

Time Frames for Return of Funds

Reason for refund calculation	*SFA funds (non-FFEL) must be returned to SFA Program accounts within...*	*FFEL funds must be returned to the lender within...*	*Funds due to a student must be paid within...*	*Determination of the student's withdrawal date must be made within...*
Official withdrawal	30 days from the later of— • last date of attendance • student notification	60 days from the later of— • last date of attendance • student notification	30 days from the later of— • last date of attendance • student notification	N/A
Unofficial withdrawal	30 days of date of determination by school that student ceased attending	60 days of date of determination by school that student ceased attending	30 days of earlier of— • date of determination by school that student ceased attending • end of term • end of period of enrollment for which the student has been charged	30 days of earlier of the end of— • the academic year • the program • the period of enrollment for which the student has been charged
Never returned from approved leave of absence	30 days of earlier of— • end of the LOA • student notification	30 days of earlier of— • end of the LOA • student notification	30 days of earlier of— • end of the LOA • student notification	N/A
Unapproved leave of absence	30 days from student's last recorded date of attendance	60 days of the last recorded date of attendance	30 days from student's last recorded date of attendance	N/A

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Refund & Repayment

Case Studies

The Case Study Worksheets

WITHDRAWAL RECORD (WR)
Completed properly when a student withdraws, this document provides all the data needed to calculated refunds and repayments and organizes it so that it's easy to use.

REFUND CALCULATION WORKSHEET
Completed using the figures from the WR, this Worksheet calculates unpaid charges and refunds, and can be used for nonpro rata refund policies (except the Federal Refund Calculation.

STEP ONE

STEP TWO

STEP THREE

STEP ONE

STEP TWO

STEP THREE

REPAYMENT CALCULATION WORKSHEET
This Worksheet uses figures from the WR to calculate the repayment owed by the student.

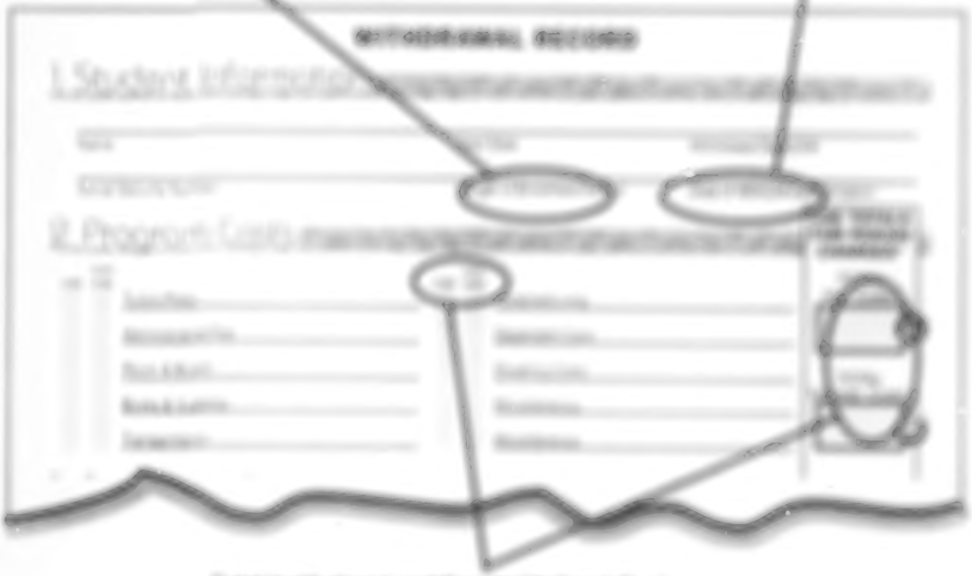
PLUS, Pro Rata and Federal Refund Calculation Worksheets

Using The Withdrawal Record

Each case study begins with a Withdrawal Record (WR). Filled out properly, the WR easily organizes all the information needed to calculate refunds and repayments. The diagrams on these two pages describe how the WR is used and summarizes some important refund and repayment requirements. A blank WR and blank Worksheets appear on pp. 3-108 through 3-112, followed by two case studies showing the calculations of two regular (i.e., *nonpro rata*) refunds and a repayment. The last three case studies are *pro rata* refund examples.

Length of Enrollment Period. Use the enrollment period for which the student was charged, in keeping with the following benchmarks. For term programs, the minimum enrollment period is the term. For nonterm programs longer than or equal to an academic year, the minimum enrollment period is either the payment period or one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, the minimum period is the program length.

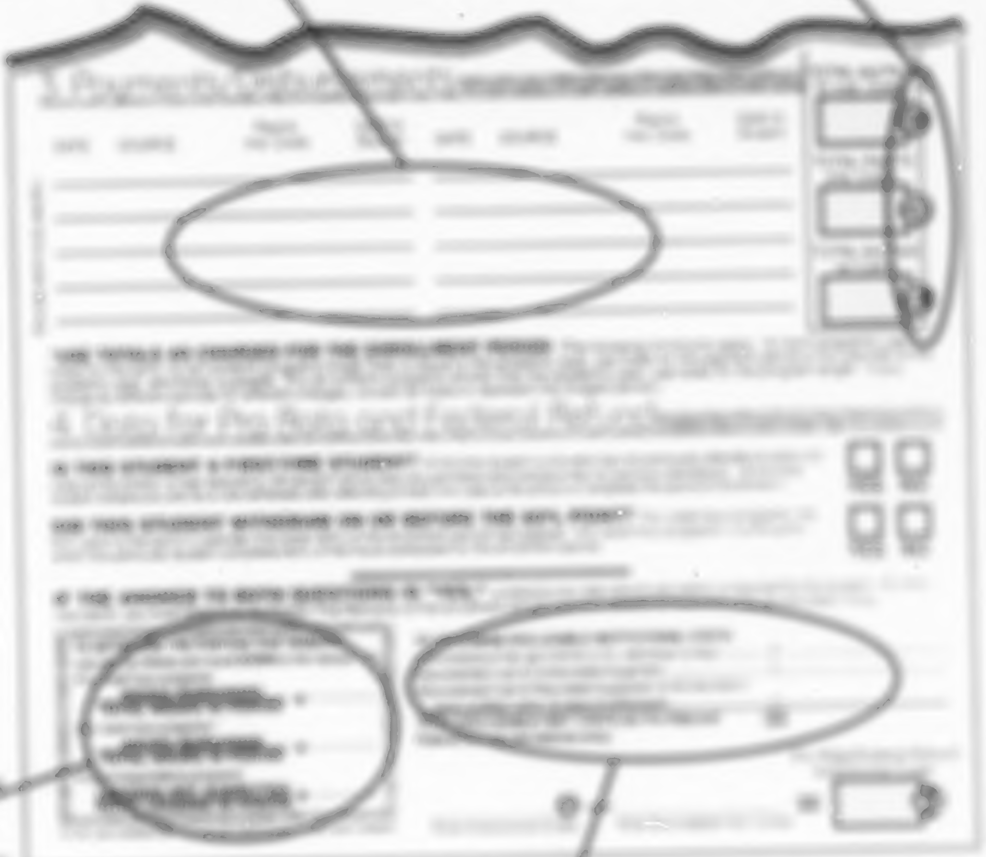
Date of WD/LOA Determination. Generally, all SFA refunds must be completed within 30 days of the student's withdrawal. However, the school may not discover an unofficial withdrawal until well after that deadline. In such cases, the deadline for return of funds turns on the date of the school's determination.



Total Institutional and Non-Institutional Costs. School charges, such as tuition and fees, are treated differently from expenses that are not charged by the school. (For a discussion of what constitutes an institutional vs. a noninstitutional charge, see pg. 3-87.)

Aid Received. This section records all aid and student payments received by the school, except work-study aid. For the loan programs, the amounts received are used (the origination and insurance fees are excluded). Refunds apply only to funds used to pay institutional charges (including student payments), while repayments deal only with aid that is disbursed directly to the student. Therefore, it's important to determine which funds paid institutional costs and which were disbursed in cash (or checks) to the student for noninstitutional costs. (If part of a payment went to the school while the remainder was disbursed to the student, the exact amount that went to each destination must be recorded.)

Aid Totals. Total C should include **all** aid (not just SFA funds) paid to school charges. Total D should reflect **all** amounts (including student payments) paid to school charges. Total E should include **all** aid (not just SFA funds) paid to the student in cash.



3. Payments/Disbursements
4. Data for Pro Rata and Federal Refund

Portion that Remains for Pro Rata. The "portion that remains" figure is needed for pro rata calculations.

Special Determinations for Pro Rata and Federal Refund Calculation. If a student qualifies for a pro rata or Federal Refund calculation, the excludable costs (according to the regulatory rules) are needed for a refund calculation.

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WARNING: DO NOT use without the accompanying instructions!!

WITHDRAWAL RECORD

1. Student Information

Name / Start Date / Withdrawal Date/LDA

Social Security Number / Length of Enrollment Period / Date of Withdrawal Determination

2. Program Costs

						USE TOTALS FOR PERIOD CHARGED*
		Tuition/Fees			Personal/Living	TOTAL Inst. Costs ☐ A
		Application Fee			Dependent Care	
		Room & Board			Disability Costs	TOTAL Noninst. Costs ☐ C
		Books & Supplies			Miscellaneous	
		Transportation			Miscellaneous	

3. Payments/Disbursements

DATE	SOURCE	Paid to Inst. Costs	Paid to Student	DATE	SOURCE	Paid to Inst. Costs	Paid to Student

TOTAL Aid Paid to Inst. Costs ☐

TOTAL Paid to Inst. Costs ☐

TOTAL Aid Paid to Student ☐

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** [illegible]

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? [illegible]

☐ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? [illegible]

☐ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," [illegible]

TO DETERMINE THE PORTION THAT REMAINS [illegible]

[illegible] =

[illegible] =

[illegible] =

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS [illegible]

Pro Rata/Federal Refund ☐

Total Institutional Costs — Pro Rata Portion ☐ = ☐

United States Department of Education
Student Financial Aid Programs

REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

[illegible]

Total Institutional Costs from Withdrawal Record Ⓐ

− Total Aid Paid to Inst. Costs* (also from Withdrawal Record) Ⓒ

=

− **Scheduled Cash Payment (SCP)** (attribution not allowable)

− Student's Cash Paid from Withdrawal Record

= **UNPAID CHARGES**

STEP TWO
Amount Retained

[illegible]

Total Institutional Costs from Withdrawal Record Ⓐ

× % Allowed to Retain (from refund policy being used)

= **Total Amount Retained By The School**

− Unpaid Charges from Step One

= **AMOUNT RETAINED**

STEP THREE
Refund Amount

[illegible]

Total Paid to Institutional Costs from Withdrawal Record Ⓓ

− Amount Retained from Step Two

= **REFUND AMOUNT TO BE DISTRIBUTED**

REFUND DISTRIBUTION—*Prescribed by Law and Regulation*

TOTAL REFUND

1. Federal SLS Loan
2. Unsubsidized Federal Stafford Loan
3. Subsidized Federal Stafford Loan
4. Federal PLUS Loan
5. Unsubsidized Federal Direct Stafford Loan
6. Subsidized Federal Direct Stafford Loan
7. Federal Direct PLUS Loan
8. Federal Perkins Loan
9. Federal Pell Grant
10. FSEOG
11. Other Title IV Aid Programs
12. Other Federal, state, private, or institutional aid
13. The student

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REPAYMENT CALCULATION WORKSHEET

STEP ONE
Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totaled.

	NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)	
Room & Board		X		=
Books & Supplies		X		=
Transportation		X		=
Personal/Living/Misc.		X		=
TOTAL COSTS Ⓑ		X		= TOTAL INCURRED

STEP TWO
Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

Total Aid Paid as Cash (from Withdrawal Record) Ⓔ

— Cash Paid from FFEL/Direct Funds*

= TOTAL CASH DISBURSED

STEP THREE
Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

Total Cash Paid to Student (from Step Two)

— Total Costs Incurred (from Step One)

= REPAYMENT AMOUNT TO BE DISTRIBUTED

If this amount is less than $100, the student owes no repayment.

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT

1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

United States Department of Education
Student Financial Aid Programs

FEDERAL REFUND CALCULATION WORKSHEET

STEP ONE*

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

Total Institutional Costs (from Withdrawal Record) Ⓐ

− Total Aid Paid to Inst. Costs* (also from Withdrawal Record) Ⓒ

= **Scheduled Cash Payment (SCP)** (attribution not allowable)

− Student's Cash Paid (from Withdrawal Record)

= **UNPAID CHARGES**

STEP TWO

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

Federal Refund Calculation Inst. Costs (from Withdrawal Record) A1

X % to be Refunded (from the regulatory policy)

= **REFUND AMOUNT TO BE DISTRIBUTED**

***NOTE:** Because calculating a Federal Refund in this manner does not show the amount retained by the school, the subtraction of unpaid charges from that amount is also not shown. However, the unpaid charges amount must still be calculated for the student because the refund process may result in the school not keeping the full amount it is allowed to retain under the Federal Refund Policy. In such a case, the school may collect the remaining balance from the student (the unpaid charges amount).

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND

1. Federal SLS Loan
2. Unsubsidized Federal Stafford Loan
3. Subsidized Federal Stafford Loan
4. Federal PLUS Loan
5. Unsubsidized Federal Direct Stafford Loan
6. Subsidized Federal Direct Stafford Loan
7. Federal Direct PLUS Loan
8. Federal Perkins Loan
9. Federal Pell Grant
10. FSEOG
11. Other Title IV Aid Programs
12. Other Federal, state, private, or institutional aid
13. The student

PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

(*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. Scheduled payments from sources other than those above cannot be counted in this manner.)

Total Institutional Costs (from Withdrawal Record) Ⓐ

− Total Aid Paid to Inst. Costs* (also from Withdrawal Record) Ⓒ

= **Student's Scheduled Cash Payment (SCP)**

− Student's Cash Paid (from Withdrawal Record)

= **UNPAID CHARGES**

STEP TWO
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

Pro Rata Institutional Costs (from Withdrawal Record) A1

X % to be Refunded (from the Portion That Remains)

= **Initial Refund Amount**

− Unpaid Charges (from Step One)

= **ACTUAL REFUND TO BE DISTRIBUTED**

[illegible]

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND

1. Federal SLS Loan
2. Unsubsidized Federal Stafford Loan
3. Subsidized Federal Stafford Loan
4. Federal PLUS Loan
5. Unsubsidized Federal Direct Stafford Loan
6. Subsidized Federal Direct Stafford Loan
7. Federal Direct PLUS Loan
8. Federal Perkins Loan
9. Federal Pell Grant
10. FSEOG
11. Other Title IV Aid Programs
12. Other Federal, state, private, or institutional aid
13. The student

NOTE: This State calculation treats unpaid charges as required by regulation.

Case Study #1

- Term school
- Non-pro rata refund
- Unpaid charges due

SCHOOL PROFILE

Cottonwood University is a residential school offering two- and four-year programs on a semester term system. CU participates in the Pell, FFEL, and campus-based programs. Each semester is 15 weeks long, and the school uses the following refund policy according to State law:

Student Withdraws:	School Retains:
Before classes	0% (Full refund)
First two weeks	20%
Third or Fourth week	30%
Fifth or Sixth week	50%
Seventh or Eighth week	75%
Ninth or Tenth week	90%
After Tenth week	100% (No refund)

For students who begin classes, 50% of the books and supplies allowance is considered incurred (in keeping with the local bookstores' return policies). Other living expenses are prorated based on the remaining weeks in the term.

STUDENT PROFILE

Russlyn McCullough enrolled as a freshman for the Fall Semester at Cottonwood University. She moved into the dorms. Her costs for the semester are as follows (institutional costs are asterisked):

Tuition & Fees*	$2400
Room & Board*	$3090
Books & Supplies	$600
Transportation	$850
Personal Expenses	$900

Russlyn received the following financial aid for the academic year:

Federal Pell	$2150
FSEOG	$1100
Federal Stafford	$2500
Federal Work Study	$1500
CU Scholarship	$1000
Rotary Scholarship•	$500

•(for 1st semester only)

Classes started on August 30, and Russlyn officially withdrew on November 1, in the tenth week.

DISBURSEMENTS AND PAYMENTS

CU received Russlyn's financial aid for the semester in the following order and amounts: $1075 Pell, $500 CU scholarship, $550 FSEOG, $1163 Stafford, and $500 Rotary scholarship. All these amounts, plus Russlyn's $500 cash payment, were credited to her account. No cash was disbursed, but Russlyn did earn FWS each week.

IMPORTANT POINTS

Although Russlyn is a first-time student, because she withdrew after the 60% point in the term, a statutory pro rata calculation is not required. Because CU charges by the term, the costs and aid received for the semester are used on the WR. Note that origination and insurance fees were deducted from the Stafford amount reported on the WR, and that Russlyn's FWS award and earnings do not appear anywhere on the WR, because earnings from work cannot be recovered.

Because Russlyn's financial aid was not sufficient to pay her total school charges, unpaid charges exist and will affect the refund amount. No repayment calculation is necessary because Russlyn did not receive a cash disbursement of SFA funds. Refund distribution is prescribed by law, and CU returns the federal SFA funds first to the Stafford lender.

WITHDRAWAL RECORD

1. Student Information

Roselyn McCullough	8/20	OFFICIAL—11/03
Name	Start Date	Withdrawal Date/LDA
000-00-0000	15-week semester	11/03
Social Security Number	Length of Enrollment Period	Date of WD/LDA Determination

2. Program Costs

Inst.	Non-inst.			Inst.	Non-inst.		
✓		Tuition/Fees	2400		✓	Personal/Living	900
		Administrative Fee				Dependent Care	
✓		Room & Board	3090			Disability Costs	
	✓	Books & Supplies	600			Miscellaneous	
	✓	Transportation	850			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 5490 Ⓐ

TOTAL Noninst. Costs: 2350 Ⓑ

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Pell	1075			Rotary	500	
	C.W.	500					
	student	500					
	FSEOG	550					
	Stafford	1163					

TOTAL Aid Paid To Inst. Costs: 3788 Ⓒ

TOTAL Paid To Inst. Costs: 4288 Ⓓ

TOTAL Aid Paid as Cash: 0 Ⓔ

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at the school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.) ☑ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period. ☐ YES ☑ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

For credit-hour programs:
WEEKS REMAINING / TOTAL WEEKS IN PERIOD = ______

For clock-hour programs*:
HOURS REMAINING / TOTAL HOURS IN PERIOD = ______

For correspondence programs:
LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ______

*If NOT yet scheduled hours, the [illegible]

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

Administrative Fee (up to $100 or 5%, whichever is less) ______ $ ______

Documented Cost of Unreturnable Equipment ______ $ ______

Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) ______ $ ______

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only) = ______

Ⓐ Total Institutional Costs — ______ Total Excludable Inst. Costs = ______ Ⓐ1 Pro Rata/Federal Refund Institutional Costs

REFUND CALCULATION WORKSHEET

STEP ONE
Unpoid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	5490	Total Institutional Costs (from Withdrawal Record)	Ⓐ
—	3788	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	Ⓒ
=	1702	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
—	500	Student's Cash Paid (from Withdrawal Record)	
=	1202	**UNPAID CHARGES**	

STEP TWO
Amount Retained

*Use the percentage specified by the State, accrediting agency, Federal Refund Calculation, or institutional refund policy being used for the calculation. For first-time students who withdraw on or before the 60% point in the enrollment period (see Withdrawal Record for details), a statutory pro rata refund must also be calculated. For every student receiving SFA funds, the school must compare the possible refunds and use the calculation that provides the largest refund.

	5490	Total Institutional Costs (from Withdrawal Record)	Ⓐ
X	90%	"% Allowed to Retain" (from refund policy being used)	
=	4941	**Initial Amount Retained By The School**	
—	1202	UNPAID CHARGES (from Step One)	
=	3739	**AMOUNT RETAINED**	

[illegible]

STEP THREE
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	4288	Total Paid to Institutional Costs (from Withdrawal Record)	Ⓓ
—	3739	Amount Retained (from Step Two)	
=	549	**REFUND AMOUNT TO BE DISTRIBUTED**	

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 549

1. Federal SLS Loan
2. Unsubsidized Federal Stafford Loan
3. Subsidized Federal Stafford Loan 549
4. Federal PLUS Loan
5. Unsubsidized Federal Direct Stafford Loan
6. Subsidized Federal Direct Stafford Loan
7. Federal Direct PLUS Loan
8. Federal Perkins Loan
9. Federal Pell Grant
10. FSEOG
11. Other Title IV Aid Programs
12. Other Federal, state, private, or institutional aid
13. The student

REPAYMENT CALCULATION WORKSHEET

STEP ONE

Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways. The total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totaled.

	NONINST COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board	X	=	
Books & Supplies	X	=	
Transportation	X	=	
Personal/Living/Misc.	X	=	
TOTAL COSTS Ⓑ	X	=	TOTAL INCURRED

STEP TWO

Cash Paid to Student

FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

Total Aid Paid as Cash (from Withdrawal Record) Ⓔ

− Cash Paid from FFEL/Direct Funds*

= TOTAL CASH DISBURSED

STEP THREE

Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's [illegible] to the school.

Total Cash Paid to Student (from Step Two)

− Total Costs Incurred (from Step One)

= REPAYMENT AMOUNT TO BE DISTRIBUTED

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT

1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

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NOTE: The State calculation treats unpaid charges as required by regulation.

Case Study #2

✓Term school
✓Nonpro rata refund
✓No unpaid charges due

SCHOOL PROFILE

Buchanan Community College offers one- and two-year programs on a quarter term system. BCC participates in the Pell and FFEL programs. There is no on-campus housing; books can be purchased at any local bookstore. Each quarter is 11 weeks and BCC's refund policy is based on State law:

Student Completes	School Retains
Less than 15%	20%
16-30%	40%
31-50%	60%
51-60%	80%
61% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred (in keeping with the local bookstores' return policies). Other living expenses are prorated based on the percentage of the term completed. BCC has all student loans disbursed by quarter, rather than in only two disbursements.

STUDENT PROFILE

Terry Christiansen enrolled as a sophomore for the Fall Quarter at BCC. He rented an off-campus apartment, and his costs for the quarter are as follows (institutional costs are asterisked):

Tuition & Fees*	$650
Room & Board	$1100
Books & Supplies	$215
Transportation	$300
Personal Expenses	$450

Terry received the following financial aid for the academic year:

Federal Pell	$2200
Federal Stafford	$2625
State Grant (non-SSIG)	$1000

Classes started on August 29, and Terry withdrew unofficially during the term. At the end of the quarter, BCC records showed that Terry took an exam on September 16. With no further record of attendance for Terry, BCC used that date as Terry's last date of attendance.

DISBURSEMENTS AND PAYMENTS

BCC received Terry's State grant disbursement of $334 and credited it to his account. When his $814 Stafford disbursement came in, $316 went to the school account and the rest was paid to Terry in cash. The $734 Pell disbursement was also paid in cash to Terry.

IMPORTANT POINTS

Because he is not a first-time student, a statutory pro rata calculation is not required for Terry. In completing the WR, BCC uses the costs and aid received for the quarter. (The origination and insurance fees have been deducted from the Stafford amount reported on the WR.)

Because Terry's financial aid paid his institutional costs, there are no unpaid charges. In the repayment calculation, living expenses incurred are calculated using the rates specified in the school's policy, based on the number of weeks Terry attended. It is BCC's policy to count a 4-day week as a full week, so Terry attended 3 weeks. (To figure the percentage incurred, BCC uses a ratio of weeks completed ÷ total weeks in enrollment period, or 3 ÷ 11, which equals 27%. This percentage is used on the Repayment Calculation Worksheet, for all living expenses except books & supplies, which were incurred at the rate of 50% as noted in the School Profile above.)

WITHDRAWAL RECORD

1. Student Information

Terry Christiansen — Name
6/30 — Start Date
UNOFFICIAL—8/19 — Withdrawal Date/LDA
000-00-0007 — Social Security Number
11-week quarter — Length of Enrollment Period
10/19 — Date of WD/LDA Determination

2. Program Costs

✓	Tuition/Fees	650	✓	Personal/Living	450
	Administrative Fee			Dependent Care	
✓	Room & Board	1100		Disability Costs	
✓	Books & Supplies	210		Miscellaneous	
✓	Transportation	300		Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 650 Ⓐ
TOTAL Noninst. Costs: 2060 Ⓑ

3. Payments/Disbursements

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	State	334					
	Stafford	316	458				
	Pell		1774				

TOTAL Aid Paid to Inst. Costs: 650 Ⓒ
TOTAL Paid To Inst. Costs: 650 Ⓓ
TOTAL Aid Paid as Cash: 2232 Ⓔ

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** [illegible]

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? [illegible] ☐ YES ☑ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? [illegible] ☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," [illegible]

TO DETERMINE THE PORTION THAT REMAINS

[illegible]

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS

[illegible] $
[illegible] $
[illegible] $
TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only) [illegible]

Ⓐ — Total Instructional Inst. Costs — Total Excludable Inst. Costs = Pro Rata/Federal Refund Institutional Costs Ⓐ

REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

[illegible]

	650	Total Institutional Costs (from Withdrawal Record)	Ⓐ
−	650	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	Ⓒ
=	0	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
−	0	Student's Cash Paid (from Withdrawal Record)	
=	0	**UNPAID CHARGES**	

STEP TWO

Amount Retained

[illegible]

	650	Total Institutional Costs (from Withdrawal Record)	Ⓐ
X	45%	"% Allowed to Retain" (from school policy being used)	
=	293	**Initial Amount Retained By The School**	
−	0	UNPAID CHARGES (from Step One)	
=	293	**AMOUNT RETAINED**	

[illegible]

STEP THREE

Refund Amount

[illegible]

	650	Total Paid to Institutional Costs (from Withdrawal Record)	Ⓓ
−	293	Amount Retained (from Step Two)	
=	357	**REFUND AMOUNT TO BE DISTRIBUTED**	

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 357

1. Federal SLS Loan
2. Unsubsidized Federal Stafford Loan
3. Subsidized Federal Stafford Loan 357
4. Federal PLUS Loan
5. Unsubsidized Federal Direct Stafford Loan
6. Subsidized Federal Direct Stafford Loan
7. Federal Direct PLUS Loan
8. Federal Perkins Loan
9. Federal Pell Grant
10. FSEOG
11. Other Title IV Aid Programs
12. Other Federal, state, private, or institutional aid
13. The student

REPAYMENT CALCULATION WORKSHEET

STEP ONE
Living Expenses Incurred

[illegible]

	NORMAL COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)		
Room & Board	1100	X	27%	=	297
Books & Supplies	210	X	50%	=	105
Transportation	300	X	27%	=	81
Personal/Living/Misc.	450	X	27%	=	122
TOTAL COSTS Ⓓ		X		=	605 TOTAL INCURRED

STEP TWO
Cash Paid to Student

[illegible]

1232 Total Aid Paid as Cash (from Withdrawal Record) Ⓔ
— 498 Cash Paid from FFEL/Direct Funds
= 734 TOTAL CASH DISBURSED

STEP THREE
Repayment Amount

[illegible]

734 Total Cash Paid to Student (from Step Two)
— 605 Total Costs Incurred (from Step One)
= 129 REPAYMENT AMOUNT TO BE DISTRIBUTED

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT 129
1. Federal Perkins Loan
2. Federal Pell Grant 129
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

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Case Study #3

•Non-term school
•Statutory pro rata refund
•Unpaid charges due

SCHOOL PROFILE

Copperfield Technical Institute offers 900 and 1200 clock-hour programs, and charges for the entire program at the time of enrollment. CTI participates in the Pell and FFEL programs. The 900-hour program lasts 30 weeks (an academic year) and is divided into two payment periods, 450 hours each. The 1200-hour program is 40 weeks long and is divided into three payment periods: 450 hours, 450 hours, and 300 hours. CTI uses its State refund guidelines:

Student Completes	School Retains
Less than 10%	40%
11-30%	60%
31-60%	80%
61% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local book stores' return policies. Other living expenses are prorated based on the percentage of the program completed.

STUDENT PROFILE

Wendy Loggins enrolled in a 900-hour program at Copperfield. She rents an apartment, and her costs for the program are as follows (institutional costs are asterisked):

Tuition & Fees*	$6000
Room & Board	$2750
Books & Supplies	$600
Transportation	$600
Personal Expenses	$1000

Wendy received the following financial aid for the academic year:

Federal Pell	$2300
Federal Stafford	$2625
Federal PLUS	$3800

Wendy began her program on October 3 and officially withdrew on February 16 of the next year, after completing 450 clock hours (50% of the program). CTI calculated both a State refund and a statutory pro rata refund, and found that the statutory pro rata refund was the largest.

DISBURSEMENTS AND PAYMENTS

Wendy's Stafford disbursement of $1221 went to pay school charges, as did the Pell disbursement of $1150 and the PLUS disbursement of $1874. The school did not disburse any cash to Wendy.

IMPORTANT POINTS

In completing the WR for a statutory pro rata calculation, CTI uses the costs and amounts paid for the entire program (which is the enrollment period).

Wendy has an unpaid balance, but it will be treated differently under the statutory pro rata calculation—unpaid charges are subtracted from the initial refund amount. No repayment is calculated because no cash was disbursed. The refund is distributed first to Stafford and then to PLUS.

WITHDRAWAL RECORD

1. Student Information

[illegible] — Name
[illegible] — Start Date
[illegible] — Withdrawal Date/LDA
[illegible] — Social Security Number
[illegible] — Length of Enrollment Period
[illegible] — Date of Withdrawal Determination

2. Program Costs

✓	Tuition/Fees	4500
	Administrative Fee	
✓	Room & Board	2730
✓	Books & Supplies	630
✓	Transportation	900
✓	Personal/Living	1350
	Dependent Care	
	Disability Costs	
	Miscellaneous	
	Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

- TOTAL Inst. Costs: 4500 Ⓐ
- TOTAL Noninst. Costs: [illegible] Ⓑ
- TOTAL Aid Paid: [illegible] Ⓒ
- TOTAL Paid to Inst. Costs: [illegible] Ⓓ
- TOTAL Aid Paid to Student: 0 Ⓔ

3. Payments/Disbursements

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Stafford	[illegible]					
	Pell	[illegible]					
	PLUS	[illegible]					

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD.** [illegible]

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? [illegible] ☑ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? [illegible] ☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," [illegible]

TO DETERMINE THE PORTION THAT REMAINS
[illegible]
[illegible] =
[illegible] = [illegible]
[illegible] =

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS
[illegible] 0

4500 − 0 = 4500

Total Institutional Costs − Total Excludable Inst. Costs = Pro Rata/Federal Refund [illegible]

PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

[illegible]

	$500	Total Institutional Costs (from Withdrawal Record)	Ⓐ
−	$445	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	Ⓒ
=	$55	Student's Scheduled Cash Payment (SCP)	
−	0	Student's Cash Paid (from Withdrawal Record)	
=	$55	UNPAID CHARGES	

STEP TWO

Refund Amount

[illegible]

	$500	Pro Rata Institutional Costs (from Withdrawal Record)	Ⓓ
×	50%	% to be Refunded (from the Portion Not Remaining)	
=	$250	Initial Refund Amount	
−	$55	Unpaid Charges (from Step One)	
=	$195	ACTUAL REFUND TO BE DISTRIBUTED	

BEST COPY AVAILABLE

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND $195

1. Federal SLS Loan	8. Federal Perkins Loan
2. Unsubsidized Federal Stafford Loan	9. Federal Pell Grant
3. Subsidized Federal Stafford Loan $125	10. FSEOG
4. Federal PLUS Loan $70	11. Other Title IV Aid Programs
5. Unsubsidized Federal Direct Stafford Loan	12. Other Federal, state, private, or institutional aid
6. Subsidized Federal Direct Stafford Loan	13. The student
7. Federal Direct PLUS Loan	

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REPAYMENT CALCULATION WORKSHEET

STEP ONE

Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board	X	=	
Books & Supplies	X	=	
Transportation	X	=	
Personal/Living/Misc.	X	=	
TOTAL COSTS Ⓑ	X	=	TOTAL INCURRED

STEP TWO

Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

Total Aid Paid as Cash (from Withdrawal Record) Ⓔ

− Cash Paid from FFEL/Direct Funds*

= TOTAL CASH DISBURSED

STEP THREE

Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

Total Cash Paid to Student (from Step Two)

− Total Costs Incurred (from Step One)

= REPAYMENT AMOUNT TO BE DISTRIBUTED

If this amount is less than $100, the student owes no repayment.

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT

1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

Case Study #4

- *Non-term school*
- *Federal Refund Calculation*
- *Unpaid charges due*

SCHOOL PROFILE

Copperfield Technical Institute offers 900 and 1200 clock-hour programs, and charges for the entire program at the time of enrollment. CTI participates in the Pell and FFEL programs. The 900-hour program lasts 30 weeks (an academic year) and is divided into two payment periods, 450 hours each. The 1200-hour program is 40 weeks long and is divided into three payment periods: 450 hours, 450 hours, and 300 hours. CTI's institutional refund policy is as follows:

Student Completes:	School Retains:
Less than 10%	40%
11-30%	60%
31-50%	80%
51% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local bookstores' return policies. Other living expenses are prorated based on the percentage of the program completed.

STUDENT PROFILE

Tom Servo enrolled as a sophomore in a 1200-hour program at Copperfield. He lives at home with his parents, and his costs for the program are as follows (institutional costs are asterisked):

Tuition & Fees*	$6000
Room & Board	$3640
Books & Supplies	$850
Transportation	$1200
Personal Expenses	$1850

Tom received the following financial aid for the academic year:

Federal Pell	$2300
Federal Stafford	$2625
Federal PLUS	$4000

Tom began his program on January 11 and last attended class on May 3, after completing 420 clock hours (35% of the program). There is no state or accrediting agency policy, and pro rata does not apply, so CTI compared its institutional refund to the Federal Refund Policy. The Federal Refund was larger.

DISBURSEMENTS AND PAYMENTS

Tom's Pell disbursement of $1150 was applied to school charges, as were the first disbursements of both the Stafford and the PLUS loans, in the amounts of $928 and $1414 respectively (CTI requested that the lender disburse by payment period). No cash was disbursed.

IMPORTANT POINTS

Because he is not a first-time student, a statutory pro rata calculation is not required for Tom. Because CTI is located in a State that does not have a refund policy, and CTI's accrediting agency's policy has not been approved by the Department, CTI must compare its institutional refund policy to the Federal Refund Calculation to determine the largest available refund. In Tom's case, the Federal Refund Calculation resulted in a larger refund.

In completing the WR, CTI uses the costs and amounts paid for the entire program. Tom withdrew after completing 35% of the enrollment period (after the first 25% but before the first 50% of the period), so he is due a 25% refund of his institutional charges. (CTI can exclude a $100 administrative fee before assessing the 25%.) No repayment is calculated because no cash was disbursed.

WITHDRAWAL RECORD

1. Student Information

Tom Servo	*1/11*	*UNOFFICIAL—5/03*
Name	Start Date	Withdrawal Date/LDA
000-00-0000	*1200-hr program*	*10/18*
Social Security Number	Length of Enrollment Period	Date of WD/LDA Determination

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	*6000*		✓	Personal/Living	*1850*
		Administrative Fee				Dependent Care	
	✓	Room & Board	*3640*			Disability Costs	
	✓	Books & Supplies	*850*			Miscellaneous	
	✓	Transportation	*1200*			Miscellaneous	

3. Payments/Disbursements

(Exclude work-study awards)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Stafford	*928*					
	Pell	*1150*					
	PLUS	*1414*					

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: *6000* Ⓐ

TOTAL Noninst. Costs: *7540* Ⓑ

TOTAL Aid Paid To Inst. Costs: *3492* Ⓒ

TOTAL Paid To Inst. Costs: *3492* Ⓓ

TOTAL Aid Paid as Cash: *0* Ⓔ

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☐ YES ☑ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%

- For credit-hour programs:

$$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}} = \ldots\ldots$$

- For clock-hour programs:*

$$\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}} = \ldots\ldots$$

- For correspondence programs:

$$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}} = \ldots\ldots$$

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

•Administrative Fee (up to $100 or 5%, whichever is less)	+	*100*
•Documented Cost of Unreturnable Equipment	+	
•Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal)	+	
TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only):	=	*100*

6000 Ⓐ – *100* = *5900* (A1)

Total Institutional Costs – Total Excludable Inst. Costs = Pro Rata/Federal Refund Institutional Costs:

FEDERAL REFUND CALCULATION WORKSHEET

STEP ONE*

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	6000	Total Institutional Costs (from Withdrawal Record)	A
−	3492	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	2508	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
−	0	Student's Cash Paid (from Withdrawal Record)	
=	2508	**UNPAID CHARGES**	

STEP TWO

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	5900	Federal Refund Calculation Inst. Costs (from Withdrawal Record)	A1
x	25%	% to be Refunded (from the regulatory policy)	
=	1475	**REFUND AMOUNT TO BE DISTRIBUTED**	

***NOTE:** Because calculating a Federal Refund in this manner does not show the amount retained by the school, the subtraction of unpaid charges from that amount is also not shown. However, the unpaid charges amount must still be calculated for the student because the refund process may result in the school not keeping the full amount it is allowed to retain under the Federal Refund Policy. In such a case, the school may collect the remaining balance from the student (the unpaid charges amount).

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 1475

1. Federal SLS Loan	
2. Unsubsidized Federal Stafford Loan	
3. Subsidized Federal Stafford Loan	928
4. Federal PLUS Loan	547
5. Unsubsidized Federal Direct Stafford Loan	
6. Subsidized Federal Direct Stafford Loan	
7. Federal Direct PLUS Loan	
8. Federal Perkins Loan	
9. Federal Pell Grant	
10. FSEOG	
11. Other Title IV Aid Programs	
12. Other Federal, state, private, or institutional aid	
13. The student	

REPAYMENT CALCULATION WORKSHEET

STEP ONE

Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)	
Room & Board		X		=
Books & Supplies		X		=
Transportation		X		=
Personal/Living/Misc.		X		=
TOTAL COSTS Ⓑ		**X**		**=** **TOTAL INCURRED**

STEP TWO

Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

_______ Total Aid Paid as Cash (from Withdrawal Record) Ⓔ

− _______ Cash Paid from FFEL/Direct Funds*

= _______ **TOTAL CASH DISBURSED**

STEP THREE

Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

_______ Total Cash Paid to Student (from Step Two)

− _______ Total Costs Incurred (from Step One)

= _______ **REPAYMENT AMOUNT TO BE DISTRIBUTED**

If this amount is less than $100, the student owes no repayment.

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT _______

1. Federal Perkins Loan _______
2. Federal Pell Grant _______
3. FSEOG _______
4. Other Title IV Aid Programs _______
5. Other Federal, State, private, or institutional aid _______

Case Study #5

- *Term school*
- *Statutory pro rata refund*
- *No unpaid charges due*

SCHOOL PROFILE

The Rigby Academy offers two- and four-year programs and participates in the Pell, FFEL, and campus-based programs. The academic year is divided into three quarter terms, each 10 weeks long. Rigby uses its State policy:

Student Withdraws:	School Retains:
In the first week:	10%
Second or third week:	40%
Fourth week:	75%
After fourth week:	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local bookstores' return policies. Other living expenses are prorated based on the percentage of the program completed. Rigby charges a $60 administrative fee to all students; this charge is explained in the enrollment agreement.

STUDENT PROFILE

Robert Harbin enrolled in a two-year program at Rigby. His costs for the term are as follows (institutional costs are asterisked):

Tuition & Fees*	$1200
Administrative Fee*	$60
Room & Board	$1000
Books & Supplies	$205
Transportation	$250
Personal Expenses	$750

Robert received the following financial aid for the academic year:

Federal Pell	$1950
Federal Stafford	$2325
FSEOG	$1150
Federal Perkins	$850
Institutional Scholarship	$600

Classes began on February 22 and Robert officially withdrew in the fifth week. Under Rigby's policy, Robert would receive no refund. However, he is entitled to a statutory pro rata refund.

DISBURSEMENTS AND PAYMENTS

Robert's $300 cash payment and $960 of the Stafford disbursement were credited to the school's account; the remaining $121 of Stafford funds were disbursed in cash to Robert. Then, $650 from Pell, $384 from FSEOG, $283 from Perkins, and $200 of the institutional scholarship were also disbursed as cash to Robert.

IMPORTANT POINTS

In completing the WR for a statutory pro rata calculation, Rigby uses costs and amounts paid for the quarter. (Robert's Stafford was not disbursed by quarter, but in two equal installments instead. Even though a portion of this disbursement is intended for the second quarter, the total amount *received* must be used in the refund calculation.)

For a statutory pro rata calculation, Rigby may exclude an administrative fee up to $100 or 5% of the total institutional costs, because they charge such a fee up front and across the board. In the repayment calculation, total non-institutional costs are assessed at a flat 50%, because in this case the same rate applies to all the items.

WITHDRAWAL RECORD

1. Student Information

Robert Harbin	*2/22*	*OFFICIAL—3/28*
Name	Start Date	Withdrawal Date/LDA
000-00-0000	*10-week quarter*	*3/25*
Social Security Number	Length of Enrollment Period	Date of WD/LDA Determination

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	*1200*		✓	Personal/Living	*750*
✓		Administrative Fee	*60*			Dependent Care	
	✓	Room & Board	*1000*			Disability Costs	
	✓	Books & Supplies	*205*			Miscellaneous	
	✓	Transportation	*250*			Miscellaneous	

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Student	*300*			*Inst. Aid*		*200*
	Stafford	*960*	*121*				
	Pell		*650*				
	FSEOG		*384*				
	Perkins		*283*				

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: *1260* Ⓐ

TOTAL Noninst. Costs: *2205* Ⓑ

TOTAL Aid Paid To Inst. Costs: *960* Ⓒ

TOTAL Paid To Inst. Costs: *1260* Ⓓ

TOTAL Aid Paid as Cash: *1638* Ⓔ

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.) ☑ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period. ☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%

- For credit-hour programs:

$$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}} = \frac{5}{10}$$

- For clock-hour programs:*

$$\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}} = \ldots$$

- For correspondence programs:

$$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}} = \ldots$$

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) +
- Documented Cost of Unreturnable Equipment + *60*
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): = *60*

1260 Ⓐ – *60* = *1200* A1

Total Institutional Costs – Total Excludable Inst. Costs = Pro Rata/Federal Refund Institutional Costs:

PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	1260	Total Institutional Costs (from Withdrawal Record)	Ⓐ
−	960	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	Ⓒ
=	300	**Student's Scheduled Cash Payment (SCP)**	
−	300	Student's Cash Paid (from Withdrawal Record)	
=	0	**UNPAID CHARGES**	

STEP TWO

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	1200	Pro Rata Institutional Costs (from Withdrawal Record)	A1
X	50%	% to be Refunded (from the Portion That Remains)	
=	600	**Initial Refund Amount**	
−	0	Unpaid Charges (from Step One)	
=	600	**ACTUAL REFUND TO BE DISTRIBUTED**	

If this amount is negative, the school may bill the student for that amount. No refund is due.

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 600

1. Federal SLS Loan		8. Federal Perkins Loan	
2. Unsubsidized Federal Stafford Loan		9. Federal Pell Grant	
3. Subsidized Federal Stafford Loan	600	10. FSEOG	
4. Federal PLUS Loan		11. Other Title IV Aid Programs	
5. Unsubsidized Federal Direct Stafford Loan		12. Other Federal, state, private, or institutional aid	
6. Subsidized Federal Direct Stafford Loan		13. The student	
7. Federal Direct PLUS Loan			

REPAYMENT CALCULATION WORKSHEET

STEP ONE

Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)				EXPENSES ACTUALLY INCURRED (from school's repayment policy)	
Room & Board		X		=		
Books & Supplies		X		=		
Transportation		X		=		
Personal/Living/Misc.		X		=		
TOTAL COSTS Ⓑ	2205	**X**	50%	**=**	1103	**TOTAL INCURRED**

STEP TWO

Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

1638 Total Aid Paid as Cash (from Withdrawal Record) Ⓔ

— 121 Cash Paid from FFEL/Direct Funds*

= 1517 **TOTAL CASH DISBURSED**

STEP THREE

Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

1517 Total Cash Paid to Student (from Step Two)

— 1103 Total Costs Incurred (from Step One)

= 414 **REPAYMENT AMOUNT TO BE DISTRIBUTED**

If this amount is less than $100, the student owes no repayment.

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT 414

1. Federal Perkins Loan 283
2. Federal Pell Grant 131
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

Consumer Information

CHAPTER 7

This chapter provides information on the requirements for the consumer information that a school must provide to students, the Department, and others.

In addition to the disclosure of information required under the basic consumer information requirements, there are four disclosure requirements with which schools must comply: campus security, student-right-to-know (data for the general student body and data related to the awarding of athletically related student aid), equity in athletics, and requirements for schools awarding athletically related student aid. Also, schools that participate in the campus-based programs must comply with disclosure requirements for drug and alcohol abuse prevention. Although some of these disclosure requirements contain common elements, they are all required separately. (See the chart on the next page.)

Electronic Media Cite

Sec. 485(a)

In a continuing effort to reduce the number of defaulted federal student loans, it is important to provide students with information necessary to choose an appropriate academic program and to fully understand the responsibility of loan repayment. This chapter briefly addresses required loan counseling, but the loan counseling requirements are covered in detail in the Campus-Based Programs Reference, the Direct Loan and FFEL Programs Reference, and in Direct Loan entrance and exit counseling guides.

This chapter also includes a summary of the effects of misrepresentation of institutional information on a school's SFA participation.

The Higher Education Amendments of 1998, Public Law 105-244 (the Amendments of 1998) include electronic media in the means a school may use to provide required consumer information to students. The Amendments also clarify that a school must make the information available upon request to both currently enrolled and prospective students. This provision is effective October 1, 1998.

Amendments of 1998

List of Information Cite
Sec. 485(a)

Note that in some cases a school is only required to make information available upon request, while in others the school must directly distribute the required information.

Basic Consumer Information Requirements Cites
34 CFR 668.43, 668.44, 668.45

The Amendments require that each year a school must provide to enrolled students a list of the information it must disseminate under the Higher Education Act of 1965, as amended, and the Family Education Rights and Privacy Act*(FERPA) and the procedures for obtaining the information. This provision is effective October 1, 1998.

SCHOOL DISCLOSURE REQUIREMENTS

Student Right-to-Know and Campus Security Act of 1990	*Equity in Athletics Disclosure Act*
Campus Security Final Regulations published April 29, 1994, effective July 1, 1994. Technical Corrections published June 30, 1995. REQUIRES: Disclosure of data on crimes committed on campus and campus safety policies and procedures.	Final Regulations published November 29, 1995, effective July 1, 1996. REQUIRES: Disclosure of data on participation rates and financing of men's and women's sports in intercollegiate athletic programs at coeducational schools.
Student Right-to-Know Final Regulations published December 1, 1995, effective July 1, 1996. REQUIRES: Disclosure of graduation or completion rates and transfer-out rates for 1) the general population of full-time, first-time degree or certificate-seeking, undergraduate students, and 2) students who receive athletically-related student aid, broken down by race and gender within sports.	ALSO REQUIRED: Data on revenues, total expenses, and operating expenses of intercollegiate athletic programs. This provision was formerly found in the Program Participation Agreement section of the law and was implemented in final regulations published April 29, 1994, effective July 1, 1994. The Amendments of 1998 moved the provision to the EADA section of the law.

BASIC CONSUMER INFORMATION REQUIREMENTS

Subpart D of the General Provisions lists basic information about the school and about financial aid that must be available to enrolled and prospective students. If necessary, these materials must be prepared by the school. However, much of the required data may already be available in brochures and handouts routinely disseminated by the school, or in federal publications such as *The Student Guide*.

Financial Aid Information

The following minimum information must be provided:

- what need-based and non-need-based federal financial aid is available to students;
- what need-based and non-need based state and local aid programs, school aid programs, and other private aid programs are available;
- how students apply for aid and how eligibility is determined;

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- how the school distributes aid among students;
- the rights and responsibilities of students receiving aid;
- how and when financial aid will be disbursed;
- the terms and conditions of any employment that is part of the financial aid package;
- the terms of, schedules for, and the necessity of loan repayment and required loan exit counseling;
- the criteria for measuring satisfactory academic progress, and how a student who has failed to maintain satisfactory progress may reestablish eligibility for federal financial aid;
- information on preventing drug and alcohol abuse;
- information regarding the availability of SFA Program funds for study abroad programs; and
- that a student may be eligible for SFA Program funds for attending a study abroad program that is approved for credit by the home school.

General Information about the School

The school must provide the following minimum information about itself:

- the names of associations, agencies, and/or governmental bodies that accredit, approve, or license the school and its programs, and the procedures by which a student may receive a copy for review of the school's accreditation, licensure, or approval;
- special facilities and services available to disabled students;
- the costs of attending the school (tuition and fees, books and supplies, room and board and applicable transportation costs, such as commuting) and any additional costs of the program in which the student is enrolled or has expressed an interest;
- a statement of the requirements for the return of SFA Program funds when a student withdraws from school, information about any refund policy with which the school must comply, and the requirements for officially withdrawing from the school. This provision was modified by the Amendments to conform to changes made to the "refund" requirements. For more information, see Chapter 6.

Amendments of 1998

- the degree programs, training, and other education offered;
- the availability of a GED program, if the school admits students who do not have a high school diploma or equivalent;

- the instructional, laboratory, and other physical plant facilities associated with the academic programs;

- a list of the faculty and other instructional personnel;

- the satisfactory progress standards that must be maintained; and

- who to contact for information on student financial assistance and on general institutional issues.

Amendments of 1998

- the school's campus crime report, as discussed on page 160 (the Amendments added this report to the list of general disclosures, effective October 1, 1998).

The school must have someone available during normal operating hours to help persons obtain consumer information. One full-time employee or several persons may be assigned so that someone is always available (with reasonable notice) to assist enrolled or prospective students and their families. Existing personnel may satisfy this requirement. A school may request a waiver of this requirement if it can demonstrate that a waiver is appropriate. A school should contact the Institutional Participation and Oversight Service (IPOS) for more information (see Chapter 10 for the general IPOS address).

Consumer Information From the Department
Sec. 484(d)

CONSUMER INFORMATION FROM THE DEPARTMENT

Amendments of 1998

The Department is required to make available to schools, lenders, and secondary schools descriptions of the SFA Programs in order to assist students in gaining information through institutional sources, and assist schools in carrying out the SFA Program requirements. The Department does this through a variety of informational sources such as *The Student Guide*, the Department's web page, and this Handbook.

The Amendments of 1998 added the following requirements:

- To the extent the information is available, the Department is required to compile and disseminate information describing state and other prepaid tuition and savings programs.

- The Department must update its Internet site to include direct links to databases with information on public and private financial assistance programs that are accessible without charge. The Department must make clear that linking to a database is not an endorsement of the database.

- Additional direct links must be provided by the Department to resources from which students may obtain information about fraudulent and deceptive financial aid practices; and

- The Department must make a reasonable effort to verify that linked databases do not contain fraudulent information.

The provisions are effective October 1, 1998.

JOB PLACEMENT RATES

Data to Support Placement Claims

Schools that recruit students by using marketing claims regarding job placement must substantiate such claims. At or before the time of application, the school must provide to prospective students, the most recent available data concerning employment statistics, graduation statistics, and other information necessary to substantiate its claims. As discussed in Chapter 2, if the school advertises job placement rates to attract enrollment, it must inform prospective students of the state licensing requirements for the jobs for which the students seek training.

Campus Security Cite
Sec. 485(f)

CAMPUS SECURITY

General Information

The Department of Education is committed to assisting schools in providing students with a safe environment in which to learn and to keep parents and students well informed about campus security. To this end Dear President letter ANN-96-5, issued jointly by the Department of Education, the Justice Department, and the Department of Health and Human Services in September 1996, provides suggestions to schools for use in developing and implementing a comprehensive policy to combat violence against women on campus. The letter lists the following web sites as possible resources:

- Department of Justice Violence Against Women Office: www.usdoj.gov/vawo/
- Department of Education World Wide Web site on campus safety: www.ed.gov/offices/ope/ppi/security.html
- Higher Education Center for Alcohol and Other Prevention World Wide Web site: www.edc.org/hec/

The Department continues to be committed to the enforcement of the Campus Security Act of 1990, which requires a school to compile an annual campus security report.

"Dear Colleague" letter GEN-96-11, published May 1996, provides an overview of the campus security requirements, guidance to schools on how to receive technical assistance in administering the requirements, and the Department's enforcement policies.

Amendments of 1998

The Amendments of 1998 made several changes to the campus security requirements. General changes include:

- The portion of the law that addresses campus security issues is now called the "Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act."

- The identification of victims or persons accused in the statistics that are included in the campus crime report is prohibited.

- The Department is required to provide technical assistance to a school in complying with these requirements at the request of the school.

- The campus security requirements may not be construed to require the reporting or disclosure of privileged information.

- The Department must report to Congress any school that the Department determines not to be in compliance with the campus crime reporting requirements.

- The Department must impose a civil penalty up to $25,000 if the Department determines that a school has substantially misrepresented the number, location, or nature of the crimes required to be reported.

- The Amendments clarify that these provisions do not cause a liability for a school or its employees or establish standard of care.

- Evidence of compliance or noncompliance with the provisions is not admissible as evidence except for actions enforcing these requirements.

Other specific changes made by the Amendments are discussed below.

Distribution of the Campus Crime Report

By September 1 of each year, a school must publish and distribute the annual campus security report to all current students and employees directly by publications provided by hand delivery, or by mail (through the U.S. Postal Service, campus mail, or computer network). The report should be provided upon request to all prospective students and prospective employees (anyone who has contacted the school for the purpose of requesting information on employment with the school). Prospective students and prospective employees must be informed of the report's availability, must be given a summary of its contents, and must be given the opportunity to request a copy.

Amendments of 1998

Prior to the Amendments of 1998, a school was not required to submit its annual security report to the Department unless the Department specifically requested the submission. The Amendments require schools to submit their crime statistics annually to the Department. The Department is required to make copies of these statistics available to the public and must submit to Congress a comprehensive report on crime statistics by September 1, 2000.

Definition of "Campus"

Amendments of 1998

Requirements regarding the campus security report must be met individually for each separate "campus". The Amendments of 1998 have broken the old general definition of "campus" into three more specific categories: campus, noncampus buildings or property, and public property. The campus crime requirements must now be met for any location that meets one of these three definitions.

Campus includes

- any building or property owned or controlled by a school within the same reasonably contiguous geographic area and used by the school in direct support of or in a manner related to its educational purposes, (the Amendments of 1998 clarified that this includes residence halls), and
- property within the same reasonably contiguous geographic area that is owned by the school but controlled by another person, if it is used by students and supports the school's purposes (such as a food or other retail vendor) (this portion of the definition was added by the Amendments of 1998).

The Amendments define the term "noncampus building or property" to mean

- any building or property owned or controlled by student organizations recognized by the school, and (this was part of old general "campus" definition), and
- any building or property (other than a branch campus) owned or controlled by the school, that is NOT within the same reasonable contiguous area, is used in relation to, the school's educational purpose, and is used by the students (this portion was added by the Amendments).

The Amendments define the term 'public property' to mean all public property that is within the same reasonably contiguous geographic area of the school that is adjacent to a facility owned or controlled by the school, and the facility is used by the school in a manner related to the institution's educational purposes. For example: a sidewalk, a street, other thoroughfare, or parking facility.

Timely Warning

In addition to the required annual campus crime report, schools are required to provide timely warning to the campus community of any occurrences of the following crimes that are reported to campus security authorities or local police agencies and are considered to represent a continuing threat to students and/or employees (note that a school must also include statistical and policy information related to these same crimes in its campus crime report; see page 164):

- murder,
- forcible and nonforcible sex offenses,
- robbery,
- aggravated assault,
- burglary,
- motor vehicle theft,
- manslaughter
- arson
- arrests or persons referred for campus disciplinary action for liquor law violations, drug-related violations, and weapons possession, and
- under the category of "prejudice" crimes of forcible and nonforcible sex offenses, robbery, aggravated assault, burglary, motor vehicle theft, manslaughter, arson, and other crimes that involve bodily injury that show evidence of prejudice based on race, gender, religion, sexual orientation, ethnicity or disability.

Amendments of 1998

The Amendments of 1998 expand the crimes that a school must include to add manslaughter, arson, and arrests of persons referred for campus disciplinary action for liquor law violations, drug-related violations, and weapons possession. The Amendments also clarify that the category of "prejudice" on the list must be included. This category includes crimes that manifest evidence of prejudice.

Campus Security Authority

A campus security authority is (1) a campus law enforcement unit. (2) an individual or organization specified in a school's campus security statement as the individual or organization to which students and employees should report criminal offenses. (3) an official of a school who has significant responsibility for student and campus activities, but does not have significant counseling responsibilities.

Note that campus officials with significant counseling responsibility are not subject to the timely warning requirement. This permits the official to provide confidential assistance to a crime victim without the competing obligation to provide an immediate report of criminal activity to the campus community. This exception does not apply to statistical reporting of crimes that occur on campus. All officials with significant responsibility for campus and student activities are required to provide information for preparation of the annual statistics.

The timely warning information is to be provided in an appropriate manner so as to prevent similar crimes from occurring and to protect the personal safety of students and employees. Schools should work closely with local law enforcement officials in determining the necessary and appropriate distribution of such information to the campus community.

FERPA

The provisions of the Family Educational Rights and Privacy Act (FERPA) do not prohibit a school from complying with the requirements of the campus security regulations. Although information on reported crimes could be included in records that are protected under FERPA, FERPA does not prohibit the disclosure of statistical, non-personally identifiable information. FERPA does not preclude a school's compliance with the timely warning requirement because FERPA recognizes that, in an emergency, information can be released without consent when needed to protect the health and safety of others. In making a timely warning report to the campus community on criminal activity that affects the safety of others, even if the school discloses the identity of an individual, the school has not violated the requirements of FERPA.

Disciplinary action or proceeding

The investigation, adjudication, or imposition of sanctions by an educational agency or institution with respect to an infraction or violation of the internal rules of conduct applicable to students of the agency or institution.

Law enforcement unit

Any individual, office, department, division, or other component of an educational agency or institution, such as a unit of commissioned police officers or noncommissioned security guards, that is officially authorized or designated by that agency or institution to

- enforce any local, state, or federal law, or refer to appropriate authorities a matter for enforcement of any local, state, or federal law against any individual or organization other than the agency or institution itself, or
- maintain the physical security and safety of the agency or institution.

Records created and maintained by a campus law enforcement unit are not education records and are not protected from disclosure by FERPA. Records of a school's disciplinary actions or proceedings against a student are not available to the public without the consent of the student or the student's parent (if applicable). However, this law does not prevent a school from releasing records of its law enforcement unit to the public without the consent of the student or the student's parent (if applicable).

Under the law, a school is permitted to disclose the results of disciplinary proceedings to the alleged victim of a crime of violence (as defined in the United States Code). However, disclosure may not be made to the public without the consent of the student or parent (if applicable).

A school is not relieved of compliance with the reporting requirements of the campus security regulations when the school refers a matter to a disciplinary committee, rather than to the school's law enforcement unit or directly to the local authorities.

Daily Crime Log

Amendments of 1998

The Amendments of 1998 require schools to make, keep and maintain daily logs of crimes reported to police or security departments. The logs must be written in a manner that is easily understood. The school must record the nature, date, time, and general location of each crime, and the disposition of the complaint, if know. The logs must be made public, except where prohibited by law or when disclosure would jeopardize the confidentiality of the victim. Schools are required to update logs with new information when available, but no later than 2 business days after the information is received.

A school may withhold information if (and as long as) the release of the information would jeopardize an ongoing criminal investigation or the safety of an individual, cause a suspect to evade detection, or result in the destruction of evidence.

The Campus Crime Report

The annual crime report due September 1, must contain the required crime statistics for the three calendar years preceding the year in which the report is disclosed. The crime report due September 1, 1999 must include statistics for 1996, 1997, and 1998 calendar years.

Policies and Procedures for Reporting Crimes

The campus crime report provides information regarding campus security policies and campus crime statistics. With limited exceptions, the campus security requirements do not prescribe policies and procedures for schools to follow. Rather, schools are required to make disclosures concerning the policies and procedures implemented by the school. At a minimum, the campus security report must include the following:

- a statement (including a list of the titles of each person or organization to whom students and employees should report the crimes) of the procedures and facilities for reporting crimes and other emergencies occurring on campus, and the policies for the school's response to such reports, including policies for making timely reports of the following crimes that are reported to campus officials or local police agencies to members of the campus community:

  Δ murder,

Δ forcible and nonforcible sex offenses,
Δ robbery,
Δ aggravated assault,
Δ burglary,
Δ motor vehicle theft,
Δ manslaughter
Δ arson
Δ arrests or persons referred for campus disciplinary action for liquor law violations, drug-related violations, and weapons possession
Δ under the category of "prejudice" crimes of forcible and nonforcible sex offenses, robbery, aggravated assault, burglary, motor vehicle theft, manslaughter, arson, and other crimes that involve bodily injury that show evidence of prejudice based on race, gender, religion, sexual orientation, ethnicity or disability

The Amendments of 1998 expand the crimes which a school must include in its campus crime statistics to include manslaughter, arson, and arrests or persons referred for campus disciplinary action for liquor law violations, drug-related violations, and weapons possession.

Amendments of 1998

Note that the Amendments of 1998 also expanded the reporting of statistics for liquor law violations, drug-related violations, and weapons possession to include persons referred for campus disciplinary action for these crimes.

Amendments of 1998

The Amendments of 1998 also clarify that statistics are required by the category of "prejudice" on crimes that manifest evidence of prejudice.

Amendments of 1998

- statistics on the occurrence on campus, in or on noncampus buildings or property, and on public property of the crimes listed above,

- a statement of the policies concerning the security of, and access to, all campus facilities, including residences, and security considerations used in the maintenance of campus facilities,

- a statement of the policies concerning campus law enforcement, including

  Δ the enforcement authority of campus security personnel, their working relationship with state and local police and other law enforcement agencies, and whether the security personnel have the authority to arrest individuals, and
  Δ policies that encourage accurate and prompt reporting of crimes to campus police and the appropriate police agencies,

- a description of the type and frequency of programs for students and employees on campus security procedures and practices; programs that encourage students and employees to be responsible for their own security and the security of others, and crime prevention programs,

- a statement of the policies concerning the monitoring and recording (through local police agencies) of student criminal activity at off-campus locations of student organizations recognized by the school, including student organizations with off-campus housing facilities (see the definition of a " campus" on page 161),

- the policies concerning the possession, use, and sale of alcoholic beverages including the enforcement of state underage drinking laws, and the policies concerning the possession, use, and sale of illegal drugs including the enforcement of state and federal drug laws,

- a description of the drug and alcohol-abuse education programs available to students and employees, as required under section 1213 of the Higher Education Act,

- a statement of the sexual assault prevention programs available and the procedures to be followed when a sex offense occurs including

    Δ a description of educational programs to promote the awareness of rape, acquaintance rape, and other forcible and nonforcible sex offenses,
    Δ procedures a student should follow if a sex offense occurs (who to contact and how to contact them, the importance of preserving evidence for proof of a criminal offense),
    Δ options for the notification of local law enforcement officials (including on-campus and local police) and a statement that school personnel will assist the student in notifying these authorities, if requested by the student,
    Δ availability of on- and off-campus counseling, mental health, or other student services for victims of sex offenses,
    Δ notice to students that the school will change a victim's academic and living situations after the alleged sex offense and of the options for changes, if changes are requested by the victim and are reasonably available,
    Δ procedures for campus disciplinary actions in cases of an alleged sex offense, including a clear statement that both the accuser and the accused
        ◊ are entitled to the same opportunities to have others present during a disciplinary proceeding, and
        ◊ will be informed of the school's final determination any school disciplinary proceeding with respect to the alleged sex offense and any sanction that is imposed against the accused.

- sanctions the school may impose following a final determination of a school disciplinary proceeding regarding rape, acquaintance rape, or other forcible or nonforcible sex offenses.

Student Right to Know Cite
Sec. 485(a)

Amendments of 1998

The Amendments require schools to report crime statistics by means of separate categories: (a) on campus; (b) in or on a noncampus building or property; (c) on public property; and (d) in dormitories or other residential facilities.

All schools must compile the required crime statistics in accordance with the definitions used in the Federal Bureau of Investigation's Uniform Crime Reporting (UCR) System, which is provided in Appendix E of the final regulation published April 29, 1994. However, schools are not required to participate in the FBI's UCR program.

Complaints Against Schools

When a complaint is filed against a school alleging noncompliance with the campus security regulations, the Department will assess the complaint and determine the appropriate response.

Technical assistance to schools in administering the campus security regulations is available from the Department's Customer Support Branch at 1-800-433-7327.

STUDENT RIGHT TO KNOW

Amendments of 1998

The Amendments of 1998 require that Student Right-to-Know disclosures be made by July 1 of each year.

In addition, the Amendments of 1998 provide that schools may provide supplemental information about students who were excluded from the completion rate calculation or for students transferring into the institution or information showing the rate at which students transfer out of the institution. The requirements in place prior to the Amendments of 1998 require schools to disclose transfer-out rates. Whether the Amendments of 1998 make the disclosure of transfer-out rates optional is being decided through the negotiated rulemaking process. This discussion reflects the requirement in place prior to the Amendments of 1998 for required disclosure.

The Student Right-to-Know Act requires schools to disclose information about graduation rates to current and prospective students and the public. A school participating in any SFA Program must disclose completion or graduation rates (both referred to here as completion rates), and transfer-out rates for the general student body. The regulations also require schools that participate in an SFA Program and offer athletically related student aid to provide information on completion rates, transfer-out rates, and other consumer information to potential student-athletes, their parents, high school coach, and guidance counselors.

For both general student body rates and rates related to athletically related student aid, schools must disclose information on completion rates and transfer-out rates on certificate- or degree-seeking, full-time undergraduate students who enter the school during the 1996-97 academic year. The cohort year is September 1- August 31.

Determining the Cohort

To calculate completion and transfer-out rates, a school must identify a group of students each year (a cohort) that the school will monitor over time so that it may determine the percentage of those students who complete their programs or transfer out of the school. The same "snapshot" approach is used to determine rates for both the general student body and those rates related to athletically related student aid. The regulations specify the cohort a school must use based on how the school offers most of its programs.

Standard Term Schools

A school that offers most of its programs based on standard terms (semesters, trimesters, quarters) must use a fall cohort of first-time freshmen for these calculations. That is, the school must count all first-time freshmen who are certificate- or degree-seeking, full-time undergraduate students who enter the school during the fall term. For a fall cohort, a student has entered the school if he or she enrolled for the fall term (or during the summer immediately preceding the fall term) and is still enrolled as of October 15 or the end of the school's drop-add period for the fall term.

Nonstandard Term or Non-Term Schools

A school that does not offer most of its programs based on standard terms must count all first-time freshmen who are certificate- or degree-seeking, full-time undergraduate students who enter the school between September 1 and August 31. For a cohort for nonstandard term and non-term schools, a student has entered the school if he or she has attended at least one class.

Schools may not include students who transfer into the school from another school as entering students for purposes of these calculations; however, a school may calculate a completion rate for students who transfer into the school as a separate, supplemental rate.

Definitions

The definitions of certificate- or degree-seeking students, first-time freshman students, and undergraduate students were adopted (with slight modifications to address the Student Right-to Know statute) from the National Center for Education Statistics (NCES's) Integrated Postsecondary Education Data System (IPEDS) Graduation Rate Survey (GRS).

Certificate- or degree-seeking student- a student enrolled in a course for credit who is recognized by the school as seeking a degree or certificate.

First-time freshman student- an entering freshman who has never attended any institution of higher education. Includes a student enrolled in the fall term who attended a postsecondary institution for the first time in the prior summer term, and a student who entered with advanced standing (college credit earned before graduation from high school).

Undergraduate students- students enrolled in a 4- or 5-year bachelor's degree program, an associate's degree program, or a vocational or technical program below the baccalaureate level.

Schools must use the SFA definition of a full-time student that is found in the Student Assistance General Provisions regulations (see the *SFA Handbook: Student Eligibility*).

Waivers

The regulations provide for a waiver of completion rate and transfer-out rate calculations for the general student body and for athletic data to any school that is a member of an athletic association or conference that has voluntarily published (or will publish) completion or graduation data that the Department determines is substantially comparable to the data required by the regulations. However, unless otherwise specified, a waiver does not apply to the required disclosure of additional data related to athletically related student aid. In addition, schools are still required to comply with information dissemination requirements.

The Amendments of 1998 allow the NCAA to distribute graduation rate information to all secondary schools in the U.S. to satisfy the distribution requirements for prospective student athletes' guidance counselors and coaches.

Amendments of 1998

In addition to waivers, the Department will consider the protocols of other agencies as acceptable methodologies if those protocols meet the requirements of the regulations. Currently, the Department has approved the technical manual of the Joint Commission on Accountability Reporting (JCAR) (an arm of the Association of State Colleges and Universities) as containing a protocol that will generate information in compliance with the regulations. JCAR schools are still obligated to fulfill all regulatory requirements, including the requirement to calculate and provide graduation rate and transfer-out rate data on student-athletes. A school will still have to fulfill the dissemination requirements for the both general student body rates and rates related to athletically related student aid.

The Department will continue to work with any interested agencies to help them develop standards that meet these requirements. If in the future the Department determines that another agency's requirements meet the standards of the Student Right-to-Know Act, the Department will inform schools that those rates may be used to satisfy the Student Right-to-Know requirements.

In the future, the National Center for Education Statistics will be putting out a graduation rate survey (GRS). Information generated for NCES for the GRS may be used to fulfill the data requirements discussed here. The Department will notify schools and provide further information when this option is available.

Disclosure for the General Student Body

The requirements for disclosing information on the general student body have been broken down into three steps: determining the cohort, calculating the rates, and disclosing the rates.

Step 1 - Determining the cohort

Schools must determine the cohort as described on pages 168 to 169 to identify students in such a way that it can take a snapshot of those same students at a later time.

Step 2 - Calculating the rates

Once a school has identified a cohort, it must determine how many of those students completed their program and how many transferred out of their program at the point in time that 150 percent of the normal time for completion of each program has elapsed for all of the students in the cohort.

Definition of "Normal Time"

Normal time is the amount of time necessary for a student to complete all requirements for a degree or certificate according to the school's catalog. This is typically

- four years (eight semesters or trimesters, or 12 quarters, excluding summer terms) for a bachelor's degree in a standard term-based school,
- two years (four semesters or trimesters, or six quarters, excluding summer terms) for an associate degree in a standard term-based school, and
- the various scheduled times for certificate programs.

The following formula is used to calculate a completion rate for the general student body:

$$\frac{\text{Number of students in cohort who completed their program within 150\% of normal time for completion}}{\text{Number of students in cohort (minus permitted exclusions)}}$$

Definition of a "Completor"

A student is counted as a completor if

- the student completed his or her program within 150 percent of the normal time for completion from their program, or
- the student has completed a transfer preparatory program within 150 percent of the normal time for completion from that program.

Transfer preparatory program At least a two-year program that is acceptable for full credit toward a bachelor's degree and qualifies a student for admission into the third year of a bachelor's degree program.

Excluded from Cohort

A school may exclude from the cohort students who

- have left school to serve in the armed forces,
- have left school to serve on official church missions,
- have left school to serve with a foreign aid service of the federal government, such as the Peace Corps, or
- are deceased, or have become totally and permanently disabled.

Transfer-out Rate

The following formula is used to calculate a transfer-out rate for the general student body:

$$\frac{\text{Number of students in cohort who transferred out of their program within 150\% of normal time for completion}}{\text{Number of students in cohort (minus permitted exclusions)}}$$

Definition of a Transfer-out Student

A student is counted as a transfer-out student if, within 150 percent of the normal time for completion of their program, the student has transferred out of the program and enrolled in any program of another eligible institution for which the prior program provides substantial preparation. A school is required to report only on those students that the school knows have transferred to another school.

Documentation of a Transfer

In addition, to be counted as a transfer-out student, a school must document that the student actually transferred. Acceptable documentation is

- a certification letter or electronic certification from the school to which the student transferred stating that the student is enrolled in that school,

- confirmation of enrollment data from a legally-authorized statewide or regional tracking system (or shared information from those systems) confirming that the student has enrolled in another school,

- institutional data exchange information confirming that a student has enrolled in another school, or

- an equivalent level of documentation.

Excluded from Cohort

As in the calculation of its completion rate, a school may exclude from the cohort students who

- have left school to serve in the armed forces,

- have left school to serve on official church missions,

- have left school to serve with a foreign aid service of the federal government, such as the Peace Corps, or

- are deceased, or have become totally and permanently disabled.

Step 3 - Disclosing the rates

This information must be disclosed by the July 1 immediately following the expiration of 150% of normal time for the group of students on which the school bases its completion and transfer-out rate calculation.

Schools must disseminate the information on completion and transfer-out rates to all enrolled students, and to prospective students upon request, through appropriate publications and mailings (for example, school catalogs or admissions literature). Schools are strongly encouraged to provide this information to other interested parties, such as guidance counselors, upon request.

EXAMPLE-Determination of Completion and Transfer-out Rates for the General Student Body

Step 1 - Determining the Cohort

Tower of London College (TLC) has both two-year and four-year degree programs. It operates on a semester basis, so it used a fall cohort.

During its fall semester, TLC had enrolled 1,000 full-time first year freshmen in degree programs. It tagged those students as its 1996 cohort.

Step 2 - Calculating the rates

One hundred and fifty percent of normal time for completion of the two-year program elapsed on August 31, 1999. In September of 2002 (after the 150% of normal time for completion of the four-year program elapsed), TLC searched its records to see how many of the 1,000 students in the cohort had completed a two-year degree as of August 31, 1999. It found that 250 students had completed such a degree. It noted both the number and identity of those students. TLC noted the identity of the students so that it would be able to determine if any of the 250 students also obtained a four-year degree and must be treated as duplicates (see below).

It also found that 35 students received a two-year degree between July 1, 1999 and August 31, 2002. TLC was unable to count these students as completors for Student Right-to-Know purposes, as they had completed the program after the elapse of 150% of normal time for completion; however, TLC chose to use this data as supplemental information.

At this point, TLC also determined the number of transfer-out students in the two-year program by ascertaining the number of students for which it had documents showing that the student had transferred to, and begun classes at, another school. It found that it had documentation on 50 such students.

One hundred and fifty percent of normal time for completion of the four-year program elapsed on August 31, 2002. In September of 2002, TLC determined how many of the 1,000 students had received a four-year degree as of June 30, 2002. It found that 450 students had done so.

Because TLC had identified the completors of the two-year program, it was able to determine that 10 of the students it had counted as 2-year completors had also received a four-year degree. TLC is not permitted to count these students as completors twice, so it deducted the number from the number of two-year degree program completors (it could also have deducted them from the number of four-year completors had it so chosen).

TLC surveyed its records to determine the number of students in the four-year program that it could document as having transferred as of August 31, 2002. It found 65 students had done so.

To determine if any of the students could be excluded from the cohort, TLC searched its records for documentation that showed that a total of 15 students in the original cohort had left the institution for the express purpose of joining a church mission, the armed forces, or a foreign aid program sponsored by the federal government, or had died or become totally and permanently disabled.

Athletically Related Student Aid

Any scholarship, grant, or other form of financial assistance offered by the school, the terms of which require the recipient to participate in a program of intercollegiate athletics at the school in order to be eligible to receive such assistance.

TLC calculated its completion rate and transfer-out rate as follows:

450 four-year program completors + (250 two-year program completors - 10 duplicates)

1,000 students in cohort - 15 permitted exclusions

Completion rate = 70%

65 four-year program transfers + 50 two-year transfers

1,000 students in cohort - 15 permitted exclusions

Transfer-out rate = 11.6%

Step 3 - Disclosing the rates

On July 1, 2003, (the July 1 following the expiration of 150 percent of normal time for the entire cohort) TLC published its completion rate and its transfer-out rate for the students who entered in the fall of 1996.

TLC decided to provide separate, supplemental information regarding the completion and retention rates of its part-time students because it has a large part-time student population. It also provided separate, supplemental information on the number of students who completed the two-year program after four years and after five years. It could have also provided separate, supplemental information on students who transferred into the school from another school had it so wished.

Athletically Related Student Aid Disclosure Requirements

Schools that participate in an SFA Program and offer athletically related student aid must provide information on completion rates, transfer-out rates, and other statistics for students who receive athletically related student aid to potential student athletes, and to their parents[1], high school coach, and guidance counselors.

The definition of athletically related student aid used here (see margin) is the same definition that is used for the EADA disclosure requirements (see page 177). The definitions of certificate- or degree-seeking students first-time freshman students undergraduate students and normal time are the same as those used for the calculation of completion and transfer-out rates for a schools general student body (discussed above).

Step 1 - Determining the cohort

A school must determine the cohort as described on pages 168 to 169.

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[1] In cases of separation or divorce when it may be difficult to locate both parents, the provision of the required information to the parent who acts as guardian of the student is acceptable.

Step 2 - Calculating the rates

Schools that provide athletically related student aid must report three completion rates and three transfer-out rates:

- a completion rate and transfer-out rate for the general student body (see page 167),
- a completion rate and transfer-out rate for the members of the cohort who received athletically related student aid (this rate is calculated in the same manner as the rates for the general student body, but must be broken down by race and gender within each sport), and
- the average completion rate and average transfer-out rate for the four most recent completing classes of the cohort categorized by race and gender for the general student population, and for race and gender within each sport. (Until the year 2000, a school may not have four years of data. In this case, the school must report an average completion rate for all the years for which it has data.)

Information that is required to be reported by sport must be broken down into the following categories:

- Basketball,
- Football,
- Baseball,
- Cross-country and track combined, and
- All other sports combined.

In addition to the completion rates and transfer-out rates, schools must report

- the number of students, categorized by race and gender, who attended the school during the year prior to the submission of the report, and
- the number of those attendees who received athletically related student aid, categorized by race and gender.

As in the calculation of completion rates and transfer-out rates for the general student body, a school may exclude from the cohort students who

- have left school to serve in the Armed Forces,
- have left school to serve on official church missions,

- have left school to serve with a foreign aid service of the federal government, such as the Peace Corps, and

- are deceased, or totally and permanently disabled.

Step 3 - Disclosing the rates

The report must be completed and submitted to the Department by July 1. A school must also provide the report to each prospective student athlete and his or her parents, coaches, and counselor when an offer of athletically related student aid is made to the prospective student. Data must be disclosed beginning on the July 1 immediately following the expiration of 150 percent of normal time for the cohort entering during the 1996-97 academic year. Therefore, schools will not be required to disclose this information for approximately one year after the expiration of the 150 percent period.

For the first year, schools are not required to provide completion rate information for students who enter before the 1996-97 academic year. However, if a school has data on students entering prior to the 1996-97 academic year (as the result of NCAA requirements, for example) the school should report these data in the four-year averages.

Schools that are not yet reporting completion rate or transfer-out rates because they do not have the necessary data must still disclose the additional data regarding the number of students who attended the previous year, categorized by race and gender, and the number who attended the previous year and who received athletically related student aid, categorized by race and gender within each sport.

There is a de minimus exception to the disclosure requirements for the completion or graduation rates of student athletes that allows schools not to disclose those rates for categories that include five or fewer students.

Schools may also provide to the Department and to student's supplemental information containing the completion rate of students who transferred into the school and the number of students who transferred out of the school.

Supplemental Information

Schools are strongly encouraged to provide additional information to place their completion or transfer-out rates for both the generai student body and those related to athletically related student aid in context. For example, a small school's completion rate may vary greatly from year to year because the school's calculations use a very small cohort. The school may wish to provide prior years data and an explanation of factors affecting their completion rate.

Also, if a school's completion rate is lowered because a large percentage of students serve on church missions, the school may wish to provide supplemental information with the required calculation to provide the completion rate of those students when an extended time frame is applied.

Equity in Athletics Cite
Sec. 485(g)

Although schools must calculate and disclose the transfer-out rate separately from their completion rate, a school may wish to provide additional information that combines the completion rate with its transfer-out rate if the school believes this provides a more accurate picture of the school.

EQUITY IN ATHLETICS

Regulations published November 29, 1995 implemented the provision of the Improving America's Schools Act of 1994 titled the Equity in Athletics Disclosure Act (EADA). The EADA is designed to make prospective students aware of the commitments of a school to providing equitable athletic opportunities for its men and women students.

Any coeducational institution of higher education that participates in an SFA Program and has an intercollegiate athletic program must prepare an annual EADA report. The report contains participation rates, financial support, and other information on men's and women's intercollegiate athletic programs.

Disclosure of the Report

The EADA requires schools to make this report available upon request to students, potential students, and the public. A school must make the report available to students, prospective students, and the public in easily accessible places. For example, a school may make copies of the report available in intercollegiate athletic offices, admissions offices, libraries, or by providing a copy to every student in his or her electronic mailbox.

In addition, a school must provide the report promptly to anyone who requests the information. For example, a school may not refuse to provide a copy of the report to the news media, and the school may not require an individual requesting the information to come to the school to view the report.

A school must inform all students and prospective students of their right to request the information. For example, the school may publish a notice at least once a year in a school publication, the school catalogue, registration materials, or relevant intercollegiate athletic department publication distributed to all students.

A school may not charge a fee to students, potential students, parents or coaches who ask for the information; however, schools are not prohibited from charging the general public a fee to cover copying expenses only.

Schools were required to compile and make available its first report by October 1, 1996. Each subsequent report must be compiled and made available by October 15 each year thereafter.

The Department has developed an optional form for reporting the EADA data (see page 185). Schools are not required to use this form. Different reporting formats are acceptable, as long as they provide all the required information.

Amendments of 1998

Previously, schools were only required to submit a copy of their report to the Department if the Department specifically requested submission. The Amendments of 1998 require schools to submit their Equity in Athletics reports to the Department annually.

The Department must submit a report to Congress by April 1, 2000, that summarizes the information reported by schools and identifies trends in the information, aggregates the information by divisions of the NCAA, and contains information on each individual school. In addition, the Department must ensure that the individual school reports and the report to Congress are made available to the public within a reasonable period of time.

Finally, the Department must notify all secondary schools in all states regarding the availability of information in the report to Congress and of the individual school reports and how such information may be accessed.

Contents of the Report

A school must first designate its reporting year. A reporting year may be any consecutive 12-month period of time. For its designated reporting year, a school must report

- the number of male and female full-time undergraduate students that attended the school (undergraduate students are those who are consistently designated as such by the school),
- the total amount of money spent on athletically related student aid (including the value of waivers of educational expenses) for: 1) men's teams and 2) women's teams,
- the ratio of athletically related student aid awarded to male athletes to athletically related student aid awarded to female athletes (see the definition of athletically related student aid on page 174),
- the total amount of recruiting expenses for: 1) all men's teams and 2) all women's teams,
- the total annual revenues for: 1) all men's teams and 2) all women's teams (a school may also report these revenues by individual teams),

- the average annual institutional salary of the head coaches for all offered sports of 1) men's teams and 2) women's teams,[2]

- the average annual institutional salary of the assistant coaches for all offered sports of 1) men's teams and 2) women's teams, and

- a listing of the varsity teams that competed in intercollegiate athletic competition and for each team, the following data:
    - Δ total number of participants as of the day of the first scheduled contest of the reporting year for the team,
    - Δ total operating expenses (expenditures on lodging and meals, transportation, officials, uniforms, and equipment) attributable to the team,[3]
    - Δ gender of the head coach (including any graduate assistant or volunteer who served as head coach) and whether he or she was assigned on a full-time or part-time basis,
    - Δ number of male assistant coaches (including any graduate assistants or volunteers who served as assistant coaches) and whether each was assigned on a full-time or part-time basis, and
    - Δ number of female assistant coaches (including any graduate assistants or volunteers who served as assistant coaches) and whether each was assigned on a full-time or part-time basis.

Definitions

"Recruiting expenses" are all expenses schools incur for recruiting activities including, but not limited to, expenditures for transportation, lodging, and meals for both recruits and institutional personnel engaged in recruiting, all expenditures for on-site visits, and all other expenses related to recruiting.

"Institutional salary" is all wages and bonuses a school pays a coach as compensation attributable to coaching.

In addition to teams that are designated as "varsity" by the school or an athletic association, varsity teams include any team that primarily competes against other teams that are designated as varsity.

"Participants" on varsity teams include not only those athletes who take part in a scheduled contest, but also any student who practices with the team and receives coaching as of the day of the first scheduled intercollegiate contest of the designated reporting year. This includes junior varsity team and freshmen team players if they are part of the overall varsity program. Schools should also include all students who receive athletically related student aid, including redshirts, injured student athletes, and fifth-year team members who have already received a bachelor's degree.

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[2] If a head coach had responsibility for more than one team and your school does not allocate that coach's salary by team, you must divide the salary by the number of teams for which the coach had responsibility and allocate the salary among the teams on a basis consistent with the coach's responsibilities for the different teams.

[3] A school also may report those expenses on a per capita basis for each team and may report combined expenditures attributable to closely related teams, such as track and field or swimming and diving. Those combinations must be reported separately for men's and women's teams.

"Operating expenses" are expenditures on lodging and meals, transportation, officials, uniforms, and equipment.

The Requirements Formerly Known as "PPA Requirements for Schools Awarding Athletically Related Financial Aid"

Amendments of 1998

The Higher Education Amendments of 1992 added language to the PPA concerning additional administrative requirements for institutions offering athletically related student aid. The Amendments of 1998 moved these provisions into the section of the law that addresses Equity in Athletics.

Prior to the Amendments, schools were required to compile an annual report,with this information, within six months of the end of each fiscal year. The school's report had to be independently audited every three years. Schools had to make available the reports and, where allowable by state law, the audits, to the Department and the public.

These requirements now fall under the reporting requirements of the EADA. See the discussion under "Disclosure of the Report" on page 177.

The Equity in Athletics Report must include the following figures:

1. revenues earned from each of the following sports: football, men's basketball, womens basketball, other mens sports combined, and other women's sports combined;
2. total revenues earned from the sports listed in #1;
3. expenses for each of the following sports: football, men's basketball, women's basketball, other men's sports combined, and other women's sports combined; and
4. total expenses of the sports listed in #3;
5. total revenues and total operating expenses of the school.

For these items, "revenue" includes, but is not limited to, gate receipts, broadcast revenues and other conference distributions, appearance guarantees and options, concessions, and advertising (student activity fees, alumni contributions, and investment income not allocable to a sport may be counted in total revenues only).

"Expenses" includes grants-in-aid, salary and payroll, travel costs, equipment and supply purchases (general and administrative overhead costs may be counted in total expenses only).

LOAN COUNSELING

Before a Federal Perkins, FFEL, or Federal Direct Loan borrower takes out a loan, the school must counsel that borrower, individually or in a group with other borrowers. The school must give the borrower general information on the average anticipated monthly repayments on the loan, available repayment options, and advice on debt management planning, to facilitate repayment and deferment/cancellation provisions, if applicable, and other terms and conditions. This loan counseling must also be provided before the borrower completes his or her course of study, or otherwise leaves the school. For a complete discussion of loan counseling requirements, please see the Campus-Based Programs Reference, the Direct Loan and FFEL Programs Reference, and Direct Loan entrance and exit counseling guides.

DRUG AND ALCOHOL ABUSE PREVENTION INFORMATION

Schools that participate in the campus-based programs must provide information under the Drug-Free Workplace Act of 1988 (Public Law 101-690), including a notice to its employees of unlawful activities and the actions the school will take against an employee who violates these prohibitions. In addition, the Drug-Free Schools and Communities Act (Public Law 101-226) requires schools that participate in any SFA Program to provide information to its students, faculty, and employees to prevent drug and alcohol abuse.

Information to be Included in Drug Prevention Materials

A school must provide the following in its materials:

- standards of conduct that clearly prohibit, at a minimum, the unlawful possession, use, or distribution of drugs and alcohol by students and employees on the school's property, or as a part of the school's activities;
- a description of the applicable legal sanctions under local, state, and federal law for unlawful possession, use, or distribution of illicit drugs and alcohol;
- a description of any drug and alcohol counseling, treatment, or rehabilitation programs available to students and employees;
- a description of the health risks associated with the use of illicit drugs and alcohol; and
- a clear statement that the school will impose sanctions on students and employees (consistent with local, state, and federal law) and a description of these sanctions, up to and including expulsion or termination of employment, and referral for prosecution of the standards of conduct.

Prospective Student
Individuals who have contacted the school to inquire about enrolling at the school or who have been contacted directly by the school or indirectly through general advertising about enrolling at the school.

The appendices and Comments and Responses sections of the August 16, 1990 regulations provide additional guidance and information for schools to use in developing these materials.

Distribution of Materials to All Students and Employees

The school may include this information in publications such as student or employee handbooks, provided that these publications are distributed to each student and employee. Merely making drug prevention materials available to those who wish to take them is not sufficient. The school must use a method that will reach every student and employee, such as the method used to distribute grade reports or paychecks. The school must distribute these materials annually. If new students enroll or new employees are hired after the initial distribution for the year, the school must make sure that they also receive the materials. (For more information on anti-drug abuse requirements, see Chapter 2.)

MISREPRESENTATION

The General Provisions regulations permit the Department to fine a school, or limit, suspend, or terminate the participation of any school that substantially misrepresents the nature of its educational program, its financial charges, or the employability of its graduates.

Definition of Misrepresentation

"Misrepresentation" is any false, erroneous or misleading statement made to a student or prospective student, to the family of an enrolled or prospective student, or to the Department. This includes disseminating testimonials and endorsements given under duress.

"Substantial Misrepresentation" is any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment.

Misrepresentation of the educational program includes false or misleading statements about the school's accreditation, the school's size, location, facilities, or equipment. Misrepresentation of financial charges includes false or misleading statements about scholarships provided for the purpose of paying school charges. To be considered a scholarship, it must actually be used to reduce tuition charges made known to the student before the scholarship was offered to the student. (The tuition charges must be charges that are applied to all students not receiving a scholarship.) It is also considered misrepresentation if the school gives false or misleading information as to whether a particular charge is a customary charge for that course at the school.

Misrepresentation of the employability of the school's graduates includes any false or misleading statements

- that the school is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment.

- that the school maintains a placement service for graduates or will otherwise secure or assist graduates in securing a job, unless it provides the student with a clear and accurate description of the extent and nature of the service or assistance, or
- concerning government job market statistics in relation to the potential placement of its graduates.

The regulatory provisions concerning misrepresentation are given in detail below.

Nature of Educational Program
Cite
34 CFR 668.72

Nature of Educational Program

Misrepresentation by an institution of the nature of its educational program includes, but is not limited to, false, erroneous or misleading statements concerning:

- The particular type(s), specific source(s), nature and extent of its accreditation;
- Whether a student may transfer course credits earned at the institution to any other institution;
- Whether successful completion of a course of instruction qualifies a student for: acceptance into a labor union or similar organization; or receipt of a local, state, or federal license or a nongovernment certification required as a precondition for employment or to perform certain functions;
- Whether its courses are recommended by vocational counselors, high schools or employment agencies, or by governmental officials for government employment;
- Its size, location, facilities or equipment;
- The availability, frequency and appropriateness of its courses and programs to the employment objectives that it states its programs are designed to meet;
- The nature, age and availability of its training devices or equipment and their appropriateness to the employment objectives that it states its programs and courses are designed to meet;
- The number, availability and qualifications, including the training and experience, of its faculty and other personnel;
- The availability of part-time employment or other forms of financial assistance;

Nature of Financial Charges Cite
34 CFR 668.73

Employability of Graduates Cite
34 CFR 668.74

- The nature and availability of any tutorial or specialized instruction, guidance and counseling, or other supplementary assistance it will provide its students before, during or after the completion of a course;

- The nature and extent of any prerequisites established for enrollment in any course; or

- Any matters required to be disclosed to prospective students under Sec. 668.44 (institutional information) and 668.47 (campus security information) of this part.

Nature of Financial Charges

Misrepresentation by an institution of the nature of its financial charges includes, but is not limited to, false, erroneous or misleading statements concerning

- Offers of scholarships to pay all or part of a course charge, unless a scholarship is actually used to reduce tuition charges that are applied to all students not receiving a scholarship and are made known to the student in advance; or

- Whether a particular charge is the customary charge at the institution for a course.

Employability of graduates

Misrepresentation by an institution regarding the employability of its graduates includes, but is not limited to, false, erroneous or misleading statements

- That the institution is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment,

- That the institution maintains a placement service for graduates or will otherwise secure or assist its graduates to obtain employment, unless it provides the student with a clear and accurate description of the extent and nature of this service or assistance, or

- Concerning government job market statistics in relation to the potential placement of its graduates.

Equity in Athletics Disclosure Act—Optional Form

All coeducational institutions of higher education that participate in any federal student financial aid program (Federal Pell, Federal SEOG, and Federal SSIG Grants; Federal Work Study; and Federal Family Education, Federal Perkins, and William D. Ford Federal Direct Loans) and have intercollegiate athletic programs under the Equity in Athletics Disclosure Act of 1994, Section 360B of Public Law 103-382. This Act and accompanying federal regulations require that the following information, based on the previous reporting year, be available for inspection by students, prospective students, and the public by October 1, 1996, and by October 15 each year thereafter. An institution may use this or any format to disclose this information.

I. General Information

A. Institution: ______________________________

Information is for the reporting year beginning _______ and ending _________

B. *Optional* ______________________________

Name of person completing form: ______________________

Signature: ______________________________

Title: ______________________________

Phone: ______________________________

Date completed: ______________________________

Current Organizational Classification:

NCAA Division ____ NAIA Division ____ Other ______________

C: Enrollment: Indicate the number of undergraduates by gender:

	#	%
Male undergraduates	___	___
Female undergraduates	___	___
Total undergraduates	___	100%

II. Intercollegiate Athletics—Varsity Teams

A. Athletic Participation: Indicate the number of participants by gender for each varsity team. A participant is a student who either a) is listed as a team member, b) practices with the team and receives coaching as of the day of the first scheduled intercollegiate contest, or c) receives athletically-related student aid. Mark coed teams, specify "other" teams and use additional pages if necessary.

PROGRAM	MEN'S TEAMS	WOMEN'S TEAMS
BASKETBALL		
BASEBALL		
CROSS COUNTRY		
DIVING		
FENCING		
FIELD HOCKEY		
FOOTBALL		
GOLF		
GYMNASTICS		
ICE HOCKEY		
LACROSSE		
RIFLE		
ROWING		
SKIING		
SOCCER		
SOFTBALL		
SQUASH		
SWIMMING		
SYNCHRONIZED SWIMMING		
TRACK & FIELD		
TEAM HANDBALL		
TENNIS		
VOLLEYBALL		
WATER POLO		
WRESTLING		
OTHERS (SPECIFY TEAMS)		
TOTAL PARTICIPANTS		

B. Operating Expenses: For each team, please indicate total institutional expenditures for lodging, meals, transportation, officials, uniforms and equipment for both home and away games. You may report co-ed team expenses separately, or prorate them as part of men's and women's teams expenses, but you may not report the same coed expenses both ways. Specify all "other" teams and use additional pages if necessary.

PROGRAM	MEN'S TEAMS	WOMEN'S TEAMS	CO-ED TEAMS	TOTALS
BASKETBALL				
BASEBALL				
CROSS COUNTRY TRACK & FIELD				
FENCING				
FIELD HOCKEY				
FOOTBALL				
GOLF				
GYMNASTICS				
ICE HOCKEY				
LACROSSE				
RIFLE				
ROWING				
SKIING				
SOCCER				
SOFTBALL				
SQUASH				
SWIMMING & DIVING				
SYNCHRONIZED SWIMMING				
TEAM HANDBALL				
TENNIS				
VOLLEYBALL				
WATER POLO				
WRESTLING				
OTHERS (SPECIFY TEAMS)				
TOTAL EXPENSES	\$ (%)	\$ (%)	\$ (%)	\$ (100%)

C. Head Coaches: For each team, please indicate the gender of the head coach (including volunteers) and whether the head coach is assigned to the team on a full-time or part-time basis. Specify "other" teams, and use additional pages if necessary.

PROGRAMS	HEAD COACH MEN'S TEAMS				HEAD COACH WOMEN'S TEAMS				HEAD COACH CO-ED TEAMS			
	MALE		FEMALE		MALE		FEMALE		MALE		FEMALE	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
BASKETBALL												
BASEBALL												
CROSS COUNTRY												
DIVING												
FENCING												
FIELD HOCKEY												
FOOTBALL												
GOLF												
GYMNASTICS												
ICE HOCKEY												
LACROSSE												
RIFLE												
ROWING												
SKIING												
SOCCER												
SOFTBALL												
SQUASH												
SWIMMING												
SYNCHRONIZED SWIMMING												
TEAM HANDBALL												
TENNIS												
TRACK & FIELD												
VOLLEYBALL												
WATER POLO												
WRESTLING												
OTHERS (SPECIFY TEAMS)												
TOTALS												

D. Assistant Coaches: For each team, please indicate the number of assistant coaches by gender (including volunteers) and whether they are assigned to the team on a full-time or part-time basis. Specify "other" teams, and use additional pages if necessary.

PROGRAMS	ASS'T COACHES MEN'S TEAMS				ASS'T COACH WOMEN'S TEAMS				ASS'T COACH CO-ED TEAMS			
	MALE		FEMALE		MALE		FEMALE		MALE		FEMALE	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
BASKETBALL												
BASEBALL												
CROSS COUNTRY												
DIVING												
FENCING												
FIELD HOCKEY												
FOOTBALL												
GOLF												
GYMNASTICS												
ICE HOCKEY												
LACROSSE												
RIFLE												
ROWING												
SKIING												
SOCCER												
SOFTBALL												
SQUASH												
SWIMMING												
SYNCHRONIZED SWIMMING												
TEAM HANDBALL												
TENNIS												
TRACK & FIELD												
VOLLEYBALL												
WATER POLO												
WRESTLING												
OTHERS (SPECIFY TEAMS)												
TOTALS												

Please provide definitions of full-time and part-time coaches:

III. Overall Athletics Program

A. **Recruiting Expenditures:** Please report the total institutional expenditures associated with recruiting for the men's and women's teams. Costs include, but are not limited to: transportation, lodging and meals for both recruits and institutional personnel engaged in recruiting; expenditures for on-site visits; and all other major expenses logically-related to recruiting. You may report expenditures for coeducational teams separately, or as a pro-rated portion of the expenditures for men's and women's teams. Do not list the same expenses under both men's and women's teams **and** coeducational teams.

Men's Teams $________________ ______%

Women's Teams $________________ ______%

Coeducational Teams $________________ ______%

Total $________________ 100%

Please explain how these figures were derived:

B. Revenue: Please report the total revenue for the reporting year generated by all men's and women's teams. You may report revenues for coeducational teams separately, or as a pro rated portion of the revenues reported for men's and women's teams. Do not report the same revenues under both men's or women's teams **and** coeducational teams.

Men's Teams $________________ _____%

Women's Teams $________________ _____%

Coeducational Teams $________________ _____%

Total $________________ 100%

C. Athletically-Related Student Aid: Please report the total amount of athletically-related student aid awarded men and women student athletes. Athletically-related student aid is aid awarded a student that requires the student to participate in an intercollegiate athletics program.

Athletically-related student aid awarded male athletes $________ ___%

Athletically-related student aid awarded female athletes $________ ___%

Total amount of athletically-related student aid $________ 100%

D. Head Coaches' Salaries: Please report the average annual institutional salary of the head coaches of the men's and women's student teams. Volunteer head coaches and head coaches whose salaries are paid by entities other than this institution are excluded from this calculation. You may report average salaries of head coaches of coeducational teams separately, or as a pro rated portion of the salaries of head coaches of men's and women's teams. Do not list the same salaries under both men's or women's teams **and** coeducational teams. Institutions are encouraged to report the number of coaches to clarify the number of salaries represented in the average.

Average salary of head coaches for men's teams $________
Number of head coaches included in this average ___

Average salary of head coaches for women's teams $________
Number of head coaches included in this average: ___

Average salary of head coaches for coeducational teams $________
Number of head coaches included in this average: ___

E. Assistant Coaches' Salaries: Please report the average annual institutional salary of the assistant coaches of the men's and women's student teams. Volunteer assistant coaches and assistant coaches whose salaries are paid by entities other than this institution are excluded from this calculation. You may report the average salary of assistant coaches of coeducational teams separately, or as a pro rated portion of the salaries of assistant coaches of men's and women's teams. Do not report the same salaries under both men's or women's teams **and** coeducational teams Institutions are encouraged to report the number of coaches to clarify the number of salaries represented in the average.

Average salary of assistant coaches for men's teams $______
Number of assistant coaches included in this average ___

Average salary of assistant coaches for women's teams $______
Number of assistant coaches included in this average: ___

Average salary of assistant coaches for coeducational teams $______
Number of assistant coaches included in this average: ___

IV. Optional Section

An institution is encouraged to provide here any further information it believes might be helpful to students, prospective students, or the public to interpret the information provided above, or that might help a prospective student-athlete make an informed choice of an athletic program. For example, an institution may include here a history of its athletic programs, or explanations of unusual or exceptional circumstances that would better explain the data or their significance.

Recordkeeping and Disclosure

CHAPTER 8

In this chapter, we discuss the requirements for maintaining and disclosing records for the SFA Programs.

The General Provisions regulations require schools to maintain records related to their participation in the SFA Programs. These records must be made available by the school to representatives of the Department and other specified individuals or organizations in the course of audits, program reviews, investigations, or other authorized reviews.

In addition to the general institutional recordkeeping requirements discussed here, a school must also comply with all applicable program-specific recordkeeping requirements contained in the individual SFA Program regulations.

This chapter also describes disclosure requirements, including a discussion of the Family Educational Rights and Privacy Act (FERPA), which restricts the disclosure of student records to other parties and requires the school to give a student the opportunity to review his or her records.

Recordkeeping Cites
General Education Provisions Act

REQUIRED RECORDS

A school must keep comprehensive and accurate program and fiscal records related to its use of SFA Program funds. The importance of maintaining complete and accurate records cannot be overemphasized. Program and fiscal records must demonstrate the school's eligibility for participation in the SFA Programs and show a clear "audit trail" for SFA Program expenditures. Records must be kept to demonstrate proper administration of SFA Program funds. For example, records for each SFA recipient must clearly show that the student was eligible for the funds received, and that the funds were disbursed in accordance with program regulations.

Program Records

A school must establish and maintain on a current basis any application the school submitted for SFA Program funds. A school must also maintain on a current basis program records that document

- the school's eligibility to participate in the SFA Programs,
- the SFA eligibility of the school's programs,
- the school's administration of the SFA Programs,
- the school's financial responsibility,
- information included in any application for SFA Program funds, and
- the school's disbursement and delivery of SFA Program funds.

Program Records a School Must Maintain

The program records that a school must maintain include, but are not limited to

- ✓ Program Participation Agreement
- ✓ Accrediting and licensing agency reviews, approvals, and reports
- ✓ State agency reports
- ✓ Audit and program review reports
- ✓ Self-evaluation reports
- ✓ Other records, as specified in regulation, that pertain to factors of financial responsibility and standards of administrative capability

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Fiscal Records

A school must keep fiscal records to demonstrate its proper use of SFA funds. A school's fiscal records must provide a clear audit trail that shows that funds were received, managed, disbursed, and returned in accordance with federal requirements. Schools are required to account for the receipt and expenditure of all SFA Program funds in accordance with generally acceptable accounting principles.

A school must establish and maintain on a current basis

- financial records that reflect each SFA Program transaction, and
- general ledger control accounts and related subsidiary accounts that identify each SFA Program transaction and separate those transactions from all other institutional financial activity.

Fiscal Records a School Must Maintain

The fiscal records that a school must maintain include, but are not limited to:

- ✔ Records of all SFA Program transactions
- ✔ Bank statements for all accounts containing SFA funds
- ✔ Records of student accounts, including each student's institutional charges, cash payments, SFA payments, cash disbursements, refunds, and repayments required for each enrollment period
- ✔ General ledger (control accounts) and related subsidiary ledgers that identify each SFA Program transaction (SFA transactions must be separate from school's other financial transactions)
- ✔ Federal Work-Study payroll records
- ✔ Records that support data appearing on required reports, such as:
  - Pell Grant Statements of Accounts
  - ED Payment Mangement System cash requests and quarterly or monthly reports
  - SFA Program reconciliation reports
  - Audit reports and school responses
  - State grant and scholarship award rosters and reports
  - Accrediting and licensing agency reports

General Records

In addition, a school must maintain the following records that pertain to the general administration of SFA Program funds.

General Records a School Must Maintain

A school must maintain records for each SFA recipient that include, but are not limited to:

- ✔ The Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine a student's eligibility for SFA funds
- ✔ Application data submitted to the Department, lender, or guaranty agency by the school on behalf of the student or parent
- ✔ Documentation of each student's or parent borrower's eligibility for SFA Program funds (e.g., records that demonstrate that the student has a high school diploma, GED, or the ability to benefit)
- ✔ Documentation of all professional judgement decisions
- ✔ Financial aid history information for transfer students
- ✔ Cost of attendance information
- ✔ Documentation of a student's satisfactory academic progress
- ✔ Documentation of a student's program of study and courses in which enrolled
- ✔ Data used to establish student's admission, enrollment status, and period of enrollment
- ✔ Required student certification statements and supporting documentation
- ✔ Documents used to verify applicant data
- ✔ Documentation relating to each student's or parent borrower's receipt of SFA Program funds, including but not limited to:
  - The amount of the grant, loan, or FWS award, its payment period, its loan period, if appropriate, and the calculations used to determine the amount of grant, loan, or FWS award;
  - The date and amount of each disbursement or delivery of grant or loan funds, and the date and amount of each payment of FWS wages;
  - The amount, date, and basis of the school's calculation of any refunds or overpayments due to or on behalf of the student; and
  - The payment of any refund or overpayment to the SFA Program fund, a lender, or the Department, as appropriate.
- ✔ Documentation of and information collected at any initial or exit loan counseling required by applicable program regulations

In addition, a school must maintain records that include, but are not limited to:

- ✔ Reports and forms used by the institution in its participation in an SFA Program, and any records needed to verify data that appear in those reports and forms
- ✔ Documentation supporting the school's calculation of its completion or graduation rates, and transfer out rates (see Chapter 7)

In addition

- participants in the Perkins Loan Program must follow procedures in Section 674.19 for documentation of a repayment history for each borrower for that program (see the SFA *Handbook: Campus-Based Programs Reference*),
- participants in the FWS Program must follow procedures established in Section 675.19 for documentation of work, earnings, and payroll transactions for that program (see the SFA *Handbook: Campus-Based Programs Reference*), and
- participants in the FFEL Program must follow procedures established in Section 682.610 for documentation of additional loan record requirements for that program (see the SFA *Handbook: Direct Loan and FFEL Programs Reference*).

RECORD RETENTION PERIODS

Schools must retain all required records for a minimum of three years. However, the starting point for the three-year period is not the same for all records. For example, some campus-based program records must be kept for three years from the end of the award year in which the funds were awarded and disbursed. However, schools must keep the Fiscal Operations Report (FISAP) and any records necessary to support its data for three years from the end of the award year in which the FISAP is submitted. The most current FISAP, which will contain 1998-99 data, must be submitted during the 1999-2000 award year, will request 2000-2001 funds, and has a submission date of October 1999. Because this FISAP will be submitted during the 1999-2000 award year, records must be kept until at least June 30, 2003, three years from the last day of the 1999-2000 award year.

There are additional exceptions to the general record retention periods for repayment records for Perkins Loans and records related to a FFEL or Direct Loan borrower's eligibility and participation in those programs.

The chart on the next page illustrates the required minimum retention periods for records under the various SFA Programs.

Minimum Record Retention Periods

SFA Program	*End of the award year in which the report was submitted*	*End of the award year for which the aid was awarded*	*End of the award year in which the student last attended*	*The loan is satisfied or the documents are needed to enforce the obligation*	*The date on which a loan is assigned to the Department, cancelled, or repaid*
Campus-based and Pell Grant		3 YEARS			
Except					
● Fiscal Operations Report (FISAP) and supporting records	3 YEARS				
● Perkins repayment records (after 12/87, includes original repayment schedule though manner of retention remains same as promissory note)					3 YEARS
● Perkins original promissory notes (before 12/87 included original repayment schedule)				UNTIL	
FFEL and Direct Loans					
● Records related to borrower's eligibility and participation			3 YEARS		
● All other records, including any other reports or forms	3 YEARS				

Different retention periods are necessary to ensure enforcement and repayment of SFA loans. Perkins Loan repayment records, including cancellation and deferment records, must be kept for three years from the date on which the loan was assigned to the Department, cancelled, or repaid. Perkins original promissory notes and original repayment schedules must be kept until the loan is satisfied or needed to enforce the obligation (for more information, see the SFA *Handbook Campus-Based Programs Reference*). Records relating to a borrower's eligibility and participation in the FFEL and Direct Loan programs must be kept for three years from the last day of the award year in which the student last attended the school.

A school may retain records longer than the minimum period required. If the school does maintain the records for a longer period of time and receives a financial aid transcript request (see the SFA *Handbook: Student Eligibility*), the school is required to provide any information requested from records the school still maintains.

A school may be required to retain records for longer than three years if the records are involved in any loan, claim, or expenditure questioned in any SFA program review, audit, investigation, or other review (see Chapter 11 for more information on program reviews and audits). If the three-year retention period expires before the issue in question is resolved, the school must continue to retain all records until resolution is reached.

RECORD MAINTENANCE

Acceptable Formats

A school must maintain all required records in a systematically organized manner. Unless a specific format is required, a school may keep required records in

- hard copy
- microform
- computer file
- optical disk
- CD-ROM
- other media formats

Regardless of the format used to keep a record, all record information (except for the Institutional Student Information Record [ISIR]) must be retrievable in a coherent hard copy format (for example, an easily understandable print out of a computer file) or in a media format acceptable to the Department. The requirement providing for other media formats acceptable to the Department allows for the use of new technology as it is developed. The Department will notify schools of acceptable media formats; schools should not apply for approval of a media format.

Any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be maintained in its original hard copy or in an imaged media format. This includes tax returns, verification statements, Student Aid Reports (SARs) used to determine eligibility and any other document when a signature seal, etc., contained on it is necessary for the document to be used for the purposes for which it is being retained.

A school may maintain a record in an imaged media format only if the format is capable of reproducing an accurate, legible, and complete copy of the original document. When printed, the copy must be approximately the same size as the original document.

Special Requirements for SARs and ISIRs

Special maintenance and availability requirements apply for Student Aid Reports (SARs) and ISIRs used to determine eligibility because it is essential that these basic eligibility records be available in a consistent, comprehensive, and verifiable format for program review and audit purposes. Because the SAR is a hard copy document, it must be maintained and available in its original hard copy format or in an imaged media format. The ISIR, an electronic record, must be maintained and available in its original format, i.e., as it was supplied by the Department to the school on a magnetic tape or cartridge, or as it was archived using EDExpress software supplied to the school. A school that uses EDExpress has the ability to maintain the ISIR data that it has maintained during the applicable award year by archiving the data to a disk or other computer format. A school that receives ISIRs on magnetic tapes or cartridges may make a copy of the file received from the Department.

A school is not required to maintain all required records in its financial aid office. For example, it may be more appropriate for a school to maintain some records in the business office, the admissions office, or the office of the registrar. The responsible administrator in the office maintaining the records should be aware of all applicable record retention requirements.

If a school closes, stops providing educational programs, is terminated or suspended from the SFA Programs, or undergoes a change in ownership that results in a change of control, it must provide for the retention of required records. It must also provide for access to those records for inspection and copying by the Department. For a school that participates in the FFEL Program, the school must also provide access for the appropriate guaranty agency.

EXAMINATION OF RECORDS

Location

A school must make its records available to the Department at an institutional location designated by the Department. These records must be readily available for review, including any records of transactions between a school and the financial institution where the school deposits any SFA funds.

Cooperation with Agency Representatives

A school that participates in any SFA Program, and the school's third-party servicers, if any, must cooperate with the agencies and individuals involved in conducting any audit, program review, investigation, or other review authorized by law. This cooperation must be extended to the following individuals and their authorized representatives: an independent auditor, the Secretary of the Department, the Department's Inspector General, the Comptroller General of the United States. A school must also provide this cooperation to any guaranty agency in whose program the school participates, and the school's accrediting agency.

Timely Access

A school must cooperate by providing timely access to requested records, pertinent books, documents, papers, or computer programs, for examination and copying by any of the agents listed above. The records to which timely access must be provided include, but are not limited to, computerized records and records reflecting transactions with any financial institution with which the school or servicer deposits or has deposited any SFA Program funds.

Reasonable Access to Personnel

A school must also provide reasonable access to all personnel associated with the school's or servicer's administration of the SFA Programs so that any of the agents listed above may obtain relevant information.

A school or servicer has not provided reasonable access to personnel if the school or servicer

- refuses to allow those personnel to supply all relevant information,

- permits interviews with those personnel only if the school's or servicer's management is present, or

- permits interviews with those personnel only if the interviews are tape recorded by the school or servicer.

SFA Recipient Information

If requested by the Department, a school or servicer must provide promptly any information the school or servicer has respecting the last known address, full name, telephone number, enrollment information, employer, and employer address of a recipient of SFA Program funds who attends or attended the school. A school must also provide this information, upon request, to a lender or guaranty agency in the case of a borrower under the FFEL Program.

DISCLOSING STUDENT INFORMATION

FERPA

To protect the privacy of students and families, federal law sets certain conditions on the disclosure of personal information from records kept by schools that participate in the SFA Programs. The relevant law is the Family Educational Rights and Privacy Act of 1974 (FERPA); do not confuse FERPA with the Privacy Act of 1974, which governs the records kept by government agencies, including the application records in the federal processing system.

FERPA restrictions on disclosure of records that are created and maintained by campus law enforcement units (for law enforcement purposes) are discussed in Chapter 7.

Department regulations set limits on the disclosure of personally identifiable information from school records, define the responsibilities of the school, and define the rights of the student in reviewing the records and requesting a change to the records. A school must give the student the opportunity to inspect and review his or her educational records, but does not have to provide copies of the records unless the requirement that the student come to the school to inspect and review the records would effectively deny access to the student. While the school may not charge a fee for retrieving the records, it may charge a reasonable fee for providing copies of the records, provided that the fee would not prevent access to the records.

The box on the next page notes several important elements of the school's responsibilities and the rights of the student or parent. The regulations apply to all education records the school keeps, including admissions records (only if the student was admitted) and academic records as well as any financial aid records pertaining to the student. Therefore, the financial aid office is not usually the office that develops the school's FERPA policy or the notification to students and parents, although it may have some input.

A School is Required to —

- ***Develop a written policy*** listing the types and locations of education records maintained by the school, and stating the procedures for parents and students to review the records.
- ***Notify parents and students*** of their rights with respect to educational records.
- ***Document the student's file*** each time personally identifiable information is disclosed to persons other than the student.

A Student has the Right to —

- ***Inspect and review*** education records pertaining to the student.
- ***Request an amendment*** to the student's records.
- ***Request a hearing*** (if the request for an amendment is denied) to challenge the contents of the education records, on the grounds that the records are inaccurate, misleading, or violate the rights of the student.

The FERPA regulations also establish rules governing the disclosure of student information to parties other than the student. The regulation lists 13 conditions under which "personally identifiable information" from a student's education record may be disclosed without the student's prior written consent. Several of these conditions are of particular interest to the financial aid office:

- Disclosure may be made to authorized representatives of the U.S. Department of Education, the Office of Inspector General, or state and local education authorities. These officials may have access to education records as a part of an audit or program review, or to ensure compliance with SFA Program requirements.

(Representatives of the Department include research firms that are under contract with the Department to conduct studies of financial aid procedures, using student information provided by the schools selected for the study. The term also includes the SFAP public inquiry contractor.)

- Disclosure may be made if it is in connection with financial aid that the student has received or applied for. For instance, the school may receive a request from the Immigration and Naturalization Service (INS) or the Federal Bureau of Investigation (FBI) for access to a student's records. Such a request may only be granted if the student information is needed to determine the amount of the aid, the conditions for the aid, the student's eligibility for the aid, or to enforce the terms or conditions of the aid.

- Disclosure may be made to the student's parent, if the student is a dependent of the parent, as defined by the Internal Revenue Service (IRS). If the student receives more than half of his or her support from the parent, under the IRS definition, the student is a dependent of the parent. (Note that the IRS definition is quite different from the rules governing dependency status for the SFA Programs.)

- Disclosure may be made to organizations that are conducting studies concerning the administration of student aid programs on behalf of educational agencies or institutions.

Disclosure Requests for Information

Schools are required to keep a record of each request for access and each disclosure of personally identifiable student information. The record must identify the parties who requested the information and their legitimate interest in the information. This record must be maintained in the student's file as long as the educational records themselves are kept.

Sample Disclosure Statement

If student records are requested by Department reviewers in the course of a program review, for instance, the school must document in each student's file that the student's records were disclosed to representatives of the Department. The easiest way for the school to do this is to photocopy a statement to this effect and include it in each student's file. A statement such as the following would be appropriate for a review of the SFA Programs conducted by a Department regional office: "These financial aid records were disclosed to representatives of the U.S. Department of Education, Region __, on (Month/Day/Year) to determine compliance with financial aid requirements, under 34 CFR Part 99.31(a)(4)."

Redisclosure to Other Authorized Parties

When student information has been disclosed to one of the parties listed above, that party may redisclose that information to additional parties who are authorized to receive the information without prior written consent, provided that such redisclosure is included in the statement in the student's file. For instance, if a program review finds evidence that a student may have fraudulently obtained aid, this information may be redisclosed to the Department's Office of Inspector General (OIG) by the regional office. (Thus the OIG would not have to make a separate request to the school for the same information.) When redisclosure is anticipated, the additional parties to whom the information will be disclosed must be included in the record of the original disclosure. For instance, to continue the example for an SFA program review, the following statement might be added: "The Institutional Review Branch may make further disclosures of this information to the Department's Office of Inspector General, and to the U.S. Department of Justice, under 34 CFR 99.33(b)." You should check with the program review staff to find out if any redisclosure is anticipated.

As mentioned earlier, the financial aid office is usually not responsible for developing the school's FERPA policy. However, if you are involved in developing your school's policy and would like a copy of the Department's model policy for postsecondary schools, you may write to the following address:

Family Policy and Compliance Office
U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202-4605

Agreements Between Schools

CHAPTER 9

Two or more institutions may enter into a consortium or contractual agreement so that a student can continue to receive SFA funds while studying at a school or organization other than his or her "home" institution. (The home school is the one that will grant the student's degree or certificate.) This chapter discussed the specific requirements for such agreements.

Under a consortium or contractual agreement (including those for study abroad programs), the home school must give credit for the courses taken at the other school(s) on the same basis (in terms of instructional time) as if it provided that portion itself. The underlying assumption of the agreement is that the home school has found the other school's or organization's academic standards to be equivalent to its own, and a completely acceptable substitution for its own instruction.

However, a home school may decline to give credit for courses in which a student earns a grade of "D" at the other school. Although a home school has a policy of accepting grades of "D" or above earned at the home school, it does not have to accept credits earned for courses at the other school for which a student earns a "D."

Grades received through either a consortium or contractual agreement do not have to be included in the calculation of the student's grade point average (GPA).

CONSORTIUM AGREEMENT

A consortium agreement, which can exist between eligible schools only, can apply to all the SFA Programs. Under such a written agreement, students may take courses at a school other than the "home" institution (the school where the student expects to receive a degree or certificate) and have those courses count toward the degree or certificate at the home school.

Elements of a Consortium Agreement

There is no limit on the portion of the eligible program that may be provided by eligible schools other than the home school. Agreement contents can vary widely and will depend upon the interests of the schools involved and the accrediting or state agency standards. The Department does not dictate the format of the agreement (which can be executed by several different offices) or where the agreement is kept. However, certain information should be included in all agreements, such as which school will grant the degree or certificate, what the student's tuition, fees, and room and board costs are at each school, and what the student's enrollment status will be at each school. The agreement should also specify which school will be responsible for disbursing aid and monitoring student eligibility and should include the procedures for calculating awards, disbursing aid, monitoring satisfactory progress and other student eligibility requirements, keeping records, and distributing SFA refunds. Usually, the home institution is responsible for disbursements, but if the student is enrolled for a full term or academic year at the host institution, it may be easier for the host institution to monitor the student's eligibility and make payments. The school paying the student must return SFA funds if required (for example, in refund or overpayment situations). For details on how agreements affect Federal Pell Grant calculations, see Chapter 4.

Effective Date of the Agreement

The agreement becomes effective for the payment period in which it is signed; however, it can be retroactive to a previous payment period if the payment period is in the same award year. Thus, if an agreement is signed in the middle of the spring semester, the student can be paid for the entire award year, including the preceding fall semester.

CONTRACTUAL AGREEMENT

A contractual agreement is between eligible and ineligible schools[1] or organizations, as defined in Chapter 1 of this publication. Under such an agreement, the ineligible school or organization provides, under written contract, a portion of the eligible school's educational program.

There is a limit on the portion of the program that can be given at the ineligible school. If both the home and ineligible schools are owned or controlled by the same individual, partnership, or corporation, no more than 25% of the educational program can be provided by the ineligible school. If the two schools are separately owned or controlled, the ineligible school can provide up to 50% of the educational program. However, in the case of separately owned schools, if the contracted portion is more than 25% of the program, the home school's accrediting agency or state agency (in the case of a public postsecondary vocational institution) must determine and confirm in writing that the agreement meets its standards for contracting out education services.

Under a contractual agreement, the eligible school is always the home school. The home school performs all the aid processing and delivery functions for its students attending the ineligible school or organization. The home school is responsible for maintaining all

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1. An eligible school may not contract with an ineligible school that has been terminated from SFA Program participation or has withdrawn from SFA Program participation while under a termination, show cause, suspension, or similar proceeding by a state licensing agency, accrediting agency, guaranty agency, or the Department.

records necessary to document student eligibility and receipt of aid. (See Chapter 8 for record requirements.)

"Contracted portion of an educational program" covers situations ranging from a "junior year abroad" program to a portion of a cosmetology program given by an ineligible cosmetology school under contract with an eligible community college or vocational-technical school. In the traditional academic community, a baccalaureate institution does not jeopardize its eligible programs if no more than one academic year is spent by students at an ineligible institution, such as a foreign institution under the junior year abroad concept. At schools that predominantly grant associate degrees, eligible programs are not jeopardized if students spend no more than one semester or one quarter studying under contract at an ineligible school. (Of course, students may exceed these limits and take up to 50% of the program at a separately owned school if the school's accrediting agency has approved the contractual agreement.)

STUDY ABROAD OR DOMESTIC EXCHANGE PROGRAMS

Students usually participate in study abroad or domestic exchange programs in one of two ways:

- by paying tuition and fees directly to the school the student is temporarily attending (for example, through an out-of-state tuition waiver system), or

- by paying tuition and fees at the home school, while taking courses at another school.

Some students have had problems receiving SFA Program funds for study abroad or domestic exchange programs, because neither the student's home school nor the school the student is temporarily attending considers the student enrolled in an eligible program of study. These circumstances have caused otherwise eligible students to be denied financial assistance at both schools.

The law states that a student participating in a study abroad program is eligible for SFA funds, regardless of whether the program is required for the student's regular, eligible program of study, as long as the student is an eligible regular student enrolled in an eligible program at the home school. The study abroad program must be part of a written contractual agreement between the two schools, and the program must be accepted for credit by the home institution. (The program does not have be required for the eligible program in which the student is enrolled at the home institution for it to be accepted for credit.) The law also includes this item in the Program Participation Agreement.

CHAPTER 10

Applying for and Maintaining Participation in the SFA Programs

In this chapter, we will discuss how and when a school applies for approval to participate in any Student Financial Assistance (SFA) Program. We also discuss changes that can affect a school's participation and how and when to report these changes.

APPLYING TO PARTICIPATE

To participate in any of the SFA Programs—the Pell Grant Program, the Federal Direct Loan Program, the Federal Family Education Loan (FFEL) Program, and the campus-based programs (Federal Supplemental Educational Opportunity Grant [FSEOG], Federal Work-Study [FWS], and Federal Perkins Loan)—a school must be certified by the Department.

Application Form
Sec. 498(b)

To apply for institutional participation, a school must submit an Application for Approval to Participate in Federal Student Financial Aid Programs (Application) to the Department. In evaluating the school and deciding whether to approve or deny the request to participate in any SFA Program, the Department examines the Application and accompanying submissions. In addition, for schools that are participating or have participated in the SFA Programs, the Department will examine a school's audits and program reviews. The Department also will check to see if a school has submitted all the required financial statements and compliance audits. The Department may request additional materials (such as school catalogs or copies of contracts with third-party servicers) and ask additional questions. Note that, effective October 1, 1998, the Higher Education Amendments of 1998, Public Law 105-244 (Amendments of 1998) allow a school to provide a copy of its contract with a third-party servicer upon request, rather than requiring that it be submitted as part of the certification process.

Amendments of 1998

The Department uses this information to examine three major factors about the school: institutional eligibility, administrative capability, and financial responsibility. Each of these subjects is discussed in detail in Chapters 1-4. The Amendments of 1998 clarify that the Application is to contain information that allows the Department to evaluate a school's financial responsibility and administrative capability. In addition, the Amendments require that the Application provide, at the option of a school, for participation in one or more of the FFEL and Direct Loan programs. (Both of these provisions are effective October 1, 1998.)

Amendments of 1998

BEST COPY AVAILABLE

When to Complete on Application

A school submits a materially complete application to the Department when it

- wishes to be approved for the first time (initial certification) to participate in the SFA Programs;
- undergoes a change in ownership, a conversion for a for-profit institution to a nonprofit institution or vice versa, or a merger of two or more institutions (referred to collectively as a "change in ownership, structure or goverance" for the remainder of the chapter) and wishes to participate in the SFA Programs;
- wishes to be reapproved (recertification) to participate in the SFA Programs (the application must be completed 90 days before the expiration of the current Program Participation Agreement (PPA);
- wishes to be designated as an "eligible institution" so that its students may receive deferments under the SFA Programs, its students may be eligible for the HOPE Scholarship tax credit, or so that the school may apply to participate in federal HEA programs other than the SFA Programs, or
- wishes to be reinstated to participate in the SFA Programs.

Each of these five circumstances is discussed in more detail later in this chapter.

Electronic application

Applications for recertification, reinstatement, or reporting changes to previous applications must be submitted to the Department electronically through the Internet (for more information on required electronic processes, see Chapter 3 "Administrative Capability"). A signature page is required and must be mailed separately along with all required supporting documentation. The Department has made the Application available on the Department's web site on the World Wide Web. The address is

http://www.eligcert.ed.gov

At the time this publication goes to print, schools may not submit applications for initial certification or applications for a first-time eligible institution designation over the Internet. The Department provides the Application to a school seeking initial certification or a first-time eligible institution designations in a paper version. A school seeking initial certification or a first-time eligible institution designation can request an Application from the Department's Institutional Participation and Oversight Service (IPOS):

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805
Telephone: 202/260-3270

In addition, the Application is available in Portable Document Format (PDF). A school seeking initial certification or a first-time eligible institution designation may download this version from the World Wide Web. The address is

http://www.eligcert.ed.gov/

The school must then complete and return the Application to the Institutional Participation and Oversight Service, along with photocopies of requested documents. An Application sent by mail should be sent to the Department address listed above. An Application sent by overnight mail/courier delivery service should be sent to

U.S. Department of Education
Institutional Participation and Oversight Service
7th and D Streets, SW
GSA Building, Room 3514
Washington, DC 20407

For each version of the Application, the Department recommends that the school keep a copy of its application (and supporting documents) and retain proof of the date when it submitted the Application. The completed version of the Application—paper or electronic—is sent to the Department. With each version, the school must submit the paper page containing the original authorizing signature of the school's President/Chief Executive Officer (CEO)/Chancellor

This Application is divided into 13 sections, plus a glossary at the end.

This Section ...	*Is for ...*
A through D	General questions about the school.
E and F	Questions about educational programs and locations that the school wishes to be eligible for SFA Programs.
G	Questions about telecommunications and/or correspondence (telecom) courses, students enrolled under ability-to-benefit provisions, and incarcerated students.
H	Schools that are initial applicants, schools with a change in ownership or structure, and schools seeking reinstatement.
I	Foreign institutions, including foreign graduate medical schools.
J	Questions about third-party servicers that perform any function relating to the school's SFA Programs.
K	Questions about the school's administrative capability and financial responsibility.
L	The school's President/CEO/Chancellor to sign.
M	A checklist of copies of documents that must be included as applicable.[1]
Glossary	Specific definitions of terms used in the application.

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[1] These include the school's current letter of accreditation, valid state authorization, and in some cases audited financial statements, a default management plan and for a school undergoing a change in ownership, an audited balance sheet showing the financial condition of the school at the time of the change in ownership.

If a school has questions, it is encouraged to contact the Institutional Participation and Oversight Service.

BEST COPY AVAILABLE

Submission Time Frames

An application with missing information or materials that are still to come is considered incomplete. The time frames for submitting a materially complete application depend on a school's current status:

- A school seeking initial certification to participate in the SFA Programs may submit an Application to the Department at any time.[1]

- A school that undergoes a change in ownership, structure, or governance and wishes to participate in the SFA Programs must notify the Department in writing no later than 10 calendar days after the change becomes effective. If this date falls on a weekend or a federal holiday, the notification may be no later than the next business day. After the school receives its state and accrediting agency approvals, it must submit the Application electronically and send photocopies of the approvals to the Department. See page 219 in this chapter for more information on changes in ownership, structure, or governance.

- A school seeking to be recertified to continue to participate in the SFA Programs should submit an Application before the expiration date listed in its Program Participation Agreement (PPA). If the school submits its materially complete application to the Department no later than 90 calendar days before its PPA expires, its eligibility to participate in the SFA Programs continues until its application is either approved or not approved. This is true even if the Department does not complete its evaluation of the application before the PPA's expiration date. (For example, if a school's PPA expires on June 30 and it submits its Application by April 1, the school remains certified during the Department's review period—even if the review period extends beyond June 30.) If the 90th day before the PPA's expiration falls on a weekend or a federal holiday and the school submits its application no later than the next business day, the Department considers the application to be submitted 90 days before the PPA expires. If the school's application is not received at least 90 days before the PPA expires or is not materially complete, the school's PPA will expire and the SFA Program funding will cease.

- A school that wishes to apply to become an eligible institution so that its students may receive deferments under federal student loan programs, be eligible for the HOPE Scholarship tax credit, or so that it may participate in federal HEA programs other than the SFA Programs, may submit an Application to the Department at any time.

Materially Complete

An institution submits a materially complete application if it submits a fully completed application form supported by

- *a copy of the institution's state license or other equivalent document authorizing the institution to provide a program of postsecondary education in the state in which it is physically located,*
- *a copy of a document from its accrediting agency that grants it accreditation status, including approval of the non-degree programs it offers, and*
- *any other required supporting documentation.*

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[1] In the case of a proprietary institution and a postsecondary vocational institution, there is an eligibility requirement that the school must have been providing the same or similar postsecondary instruction continuously for at least two consecutive years before it can participate in the SFA Programs. This is known as the Two-Year Rule. (See Chapter 1.)

Expiration of Certification
Sec. 498(g)

- A school that voluntarily left the SFA Programs may seek to be reinstated at any time. A school that was terminated from the SFA Programs or that left because it was about to be terminated or otherwise sanctioned generally must wait 18 months before applying for reinstatement.

Amendments of 1998

The 1992 reauthorization of the HEA required that every four years a school must be reapproved (recertified) to participate in the SFA Programs. The Amendments of 1998 extend the certification period to up to 6 years. In addition, the Amendments of 1998 require the Department to notify schools six months in advance of the expiration of their certification.

CLARIFICATION

The date of submission for an electronic application is the date a school uses the "Submit Application" page to electronically submit the application or the date the signature page and supporting documents were postmarked or sent by a delivery service, whichever is later. For an application that is mailed or delivered, the Department considers the date of submission to be the postmark date or a delivery service's or courier's written verification or printout of the shipping date.

Status Following Submission

Following submission of an Application, the Department will contact the school if it has additional questions about the application. Generally, this will be within 90 days of the Department receiving an application. Depending on the outcome of its review, the Department either will send a school copies of the PPA to sign (and further instructions) or notify it that its application is not approved.

During the Department's application review period, a school's status is as follows:

- If a school has never been certified (and it is seeking initial certification), it will not be considered certified during the Department's review period.

Amendments of 1998

- The Amendments of 1998 allow the Department to grant provisional certification to a school seeking approval of a change in ownership based on the Department's preliminary review of a materially complete application that is received by the Department within 10 business days of the transaction for which approval is sought. If the Department grants provisional certification under these conditions, the provisional certification expires no later than the end of the month following the month in which the transaction occurred. If the Department has not issued a decision on the application within that period, the Department may extend the school's provisional certification status on a month-to-month basis until a decision is issued. This provision is effective October 1, 1998.

- If a school has a change in ownership, structure or governance and does not submit an Application within 10 business days of the transaction for which approval is sought, its participation in the SFA Programs stops. The institution may not award SFA Program funds beginning on the date that the change becomes effective until it receives a new PPA signed on behalf of the Secretary of Education. (Exceptions for unpaid commitments of SFA Program funds are discussed on page ???).

- If a school is certified (and it is seeking recertification), it will remain certified during the Department's review period if it submitted its application during the correct time frame described earlier in this Chapter.

- If a school has never been an eligible institution under the HEA, it will not be considered eligible during the Department's review period.

- If a school once participated in the SFA Programs but no longer does so, it will not be considered certified during the Department's review period.

PPA and ECAR

If the Department approves a school's application, the Department sends the school two copies of a PPA (see Chapter 2). The PPA includes the date on which the school's eligibility to participate expires. The school must sign and return both copies of the PPA to the Department. The Department then sends the school an Eligibility and Certification Approval Report (ECAR) and the school's copy of the PPA, signed and dated on behalf of the Secretary. The ECAR contains the most critical of the data elements that form the basis of the school's approval and also a list of the highest level of offering, any nondegree programs or short-term programs, and any additional locations that have been approved for the SFA Programs. Both of these forms must be kept available to be reviewed by auditors and Department officials, including the SFA Program reviewers.

Effective Date for Participation

The date the PPA is signed on behalf of the Secretary is the date the school may begin SFA Program participation. (Currently, there are additional steps that must be taken for participation in the Direct Loan Program. For more information, see the SFA Handbook: *Direct Loan and FFEL Programs Reference*.) Pell Grant and campus-based program disbursements to students may begin in the payment period that the PPA is signed on behalf of the Secretary. FFEL and Direct Loan program disbursements may begin in the loan period that the PPA is signed on behalf of the Secretary. The Department's Program Systems Service and regional offices are notified, as well as state guaranty agencies, that the school is approved to participate in the SFA Programs.

Site Visits
Sec. 498(f)

Amendments of 1998

Site Visits

Prior to the Amendments of 1998, the law required the Department to conduct a site visit at each school before the school was certified or recertified for participation in the SFA Programs. The Department was permitted to establish priorities about how schools are selected to receive site visits. In addition, the Department was permitted to coordinate the site visits with site visits by states, guaranty agencies, and accrediting agencies to eliminate duplication and reduce administrative burden. Finally, the Department was permitted to charge to cover the expense of site visits and certification.

The Amendments of 1998 make site visits as part of the certification and recertification process permissive rather than mandatory. The Department is now required, rather than permitted, to establish priorities about how institutions are selected to receive site visits and to coordinate conducting site visits to the extent practicable with other agencies. The Amendments also repeal the ability of the Department to charge fees for site visits and certification costs. This provision is effective October 1, 1998.

Provisional Certification
Sec. 498(h)

Provisional Certification

In certain cases, rather than granting full approval to participate, the Department may grant a school conditional approval to participate in the SFA Programs (for up to three complete award years). Referred to as "provisional certification" in the law, this approval is granted at the Department's discretion.

The Department will, if it approves the school, offer provisional certification to a school that allowed its PPA to expire and reapplied to participate in the SFA Programs after its approval to participate ended. (Note: If a school applying for recertification meets the submission deadlines detailed in the introduction to the Application, its PPA remains in effect until the Department either approves or does not approve the application.) If the Department grants a provisional certification, the PPA details the provisions of the certification.

Other times provisional certification may be used are when

- a participating school whose participation has been limited or suspended (or that voluntarily agrees to this provisional status) is judged by the Department to be in an administrative or financial condition that might jeopardize its ability to perform its responsibilities under its PPA,
- a participating school's accrediting agency loses its Departmental approval (it may be provisionally certified for no more than 18 months after the agency's loss of approval),
- it is determined that a school is not financially responsible but the school has met other requirements and has accepted provisional certification, or
- a school that is reapplying for certification has a high default rate.

Provisional certification is always used when

- a school is applying to participate for the first time (if approved, it will be provisionally certified for no more than one complete award year), and
- a participating school is reapplying because it has undergone a change in ownership, structure or goverance, for no more than three complete award years (see the discussion of "Change in ownership, structure or goverance" on page 219).

Revoking Provisional Certification

If the Department determines that a school with provisional certification cannot meet its responsibilities under its PPA, the Department may revoke the school's participation in the SFA Programs. The Department will notify the school of such a determination in a notice that states the basis and consequences of the determination. The notice is sent by certified mail (or other expeditious means); the revocation takes effect on the last day of the month that the Department mails the notice.

The school may request a redetermination of the revocation by submitting, within 20 days of receiving the notice, written evidence (filed by hand delivery, mail, or fax) that the finding is unwarranted. A Department official will review the request and notify the school by certified mail of his or her decision. If the Department official determines that the revocation is warranted, the school may not apply for reinstatement for 18 months after the revocation or after the expiration of any debarment/suspension action, whichever is later.

PRECERTIFICATION TRAINING REQUIREMENT

In order to participate in any SFA Program, a school must send two representatives (an administrative official and a financial aid representative) to a basic precertification training workshop offered by the Department. The Department also requires a school that has undergone a change in ownership, structure or goverance to attend the training.

Note: The Application now allows a school to select the SFA Program(s) it wishes to participate in and opt not to participate in others. If the school later decides that it would like approval to participate in SFA Programs in addition to the ones indicated on its submitted Application, it is required to send representatives to precertification training again. This is because the law requires that training must take place before each first-time approval to participate in an SFA Program is granted. However, if the school's designated representatives attended the Department's required precertification training within the last year, rather than attend training again the school may request that the Department conduct an on-site review. An on-site review may be granted at the Department's discretion.

The precertification workshop provides a general overview of the SFA Programs and their administration. It does not cover fiscal and accounting procedures in detail; the Department offers fiscal officer training separately.

- The attending administrative official must be the school's CEO for a for-profit school; nonprofit schools may send another official designated by the CEO. The administrative official must attend at least the first two days of the workshop.

- The attending financial aid representative must be the person designated by the school to be responsible for administering the SFA Programs. The financial aid representative must attend all four days of the workshop.

- If the school uses a consultant to administer its financial aid, the consultant must attend the training as the school's financial aid representative. Because the school ultimately is responsible for proper SFA Program administration, the Department strongly recommends that a financial aid employee from the school attend the training as well.

A school affected by this precertification training requirement will receive notification of the requirement, a schedule of workshops, and registration instructions along with an Application. The school will not be approved to participate in the SFA Programs until the training requirement is met.

The regulations allow schools to meet the precertification requirement by sending the specified individuals to other training programs that are approved by the Department. However, at this time no precertification training programs other than the Department's have been approved.

WHEN TO SUBMIT A MATERIALLY COMPLETE APPLICATION

As mentioned previously, there are five circumstances when a school that wishes to participate in SFA Programs must submit a materially complete Application to the Department:

- initial certification,

- change in ownership, structure or goverance,

- recertification,

- designation as an "eligible institution," and

- reinstatement

Other types of changes require a school to notify the Department (see page 225).

Initial Certification

A school must submit a materially complete Application the first time it wishes to participate in one or more SFA Programs.

Changes in Ownership, Structure or Goverance
Sec. 498(i)

Change in Ownership, Structure or Goverance

A school must submit a materially complete Application following a change in ownership, a conversion to a nonprofit institution, or a merger of two or more schools (referred to collectively as a "change in ownership and structure"). In these cases, the law states that the PPA signed by the former owner automatically expires on the date when the change takes place, and the school's SFA participation ends. The school retains its default rates and other administrative capability factors; if it is a proprietary institution or postsecondary vocational institution, it does not, however, need to meet the Two-Year Rule.

The Department must be notified of the change within 10 days and, if the school wishes to reestablish its eligibility to participate in one or more SFA Programs, an Application must be submitted and approved. Notification of changes in ownership, structure or goverance must be made to:

U.S. Department of Education
Institutional Participation and Oversight Service
Accreditation and Eligibility Determination Division
Initial Participation Branch
400 Maryland Avenue, SW
Washington, DC 20202-5244
FAX: (202) 260-5270

Amendments of 1998

As mentioned previously, the Amendments of 1998 allow the Department to grant provisional certification to a school seeking approval of a change in ownership based on the Department's preliminary review of a materially complete application that is received by the Department within 10 business days of the transaction for which approval is sought. If the Department grants provisional certification under these conditions, the provisional certification expires no later than the end of the month following the month in which the transaction occurred. If the Department has not issued a decision on the application within that period, the Department may extend the school's provisional certification status on a month-to-month basis until a decision is issued.

Change in Controlling Interest

A change in ownership and control occurs when a person or corporation obtains new authority to control a school's actions, whether the school is a proprietorship, partnership, or corporation. The most common example of this change in controlling interest is when the school is sold to a prospective owner.

Control of a school can change in other ways, too. For instance, a school can convert from a for-profit to a nonprofit institution (or vice versa). This is a change in tax status. A school's control may change when two or more schools merge or one school divides into several schools. A school's control also changes in situations where a school transfers a significant amount of stock to another person or corporation or when a school transfers its assets or liabilities to another corporation (including related corporations under the same ownership).

A change in ownership and control of a corporation that is neither closely held nor required to be registered with the Securities Exchange Commission (SEC) occurs when a person who has or acquires an ownership interest acquires both control of at least 25% of the total outstanding voting stock of the corporation and managing control of the corporation.

(For a more detailed list of the types of circumstances that signify a change in ownership, structure or governance, see 34 CFR 600.31.)

Owner's Death or Retirement

However, a school does not automatically have to submit a materially complete Application to the Department when a change in ownership and control is caused by the owner's death or retirement and ownership transfers to a family member or to a person with ownership interest who has been involved in the management of the school for at least two years preceding the transfer. In these situations, the school must notify the Department of the change and provide any supporting information requested by the Department.

The law requires that a school must report to the Department the identity of every owner or person directly or indirectly holding 25% or greater interest in the school.

Changes in Ownership Interest and 25% Threshold

The school must report any change in ownership interests whenever

- an owner acquires a total interest of 25% or greater,
- an owner who held 25% or greater interest reduces his or her interest to less than 25%, or
- an owner of 25% or greater interest increases or reduces his or her interest but remains the holder of at least 25% ownership interest.

Because of these reporting requirements, even though transferring ownership interest through death or retirement may be excluded from being considered a change in ownership resulting in a change of control, the resulting change in percentage(s) of ownership interests must be reported to the Department.

Family Member

A family member is defined as a parent, sibling, spouse, child, spouse's parent, spouse's sibling, or child's spouse.

Ownership Interest

Ownership interest is a share of the legal or beneficial ownership or control of the school or parent corporation, or a right to share in the proceeds of the operation of the school or parent corporation.

Reporting

A school must report any changes that result in an individual or owner (including a corporation or unincorporated business entity) acquiring the ability to substantially affect the actions of the school. Such a change must be reported within 10 days of the change; a school owned by a publicly traded corporation must report the change within 10 days after the corporation learns of the change. All schools are subject to these requirements, which are enforced during the institutional participation approval process, program reviews, and audit process.

An individual or corporation has the ability to substantially affect the school's actions when he or she or it

- personally holds, or holds in partnership with one or more family members, at least a 25% ownership interest in the school,

- personally represents (with voting trust, power of attorney, or proxy authority), or represents in partnership with one or more family members, any individual or group holding at least a 25% ownership interest in the school,

- is the school's chief executive officer (or other executive officer) or a member of the school's board of directors, or

- is the chief executive officer (or other officer) for any entity that holds at least 25% ownership interest in the school, or is a member of the board of directors for such an entity.

The regulations [34 CFR Part 600.30(c) and 668.15(f)] include examples of ownership interest as an interest as tenant, joint tenant, or tenant by the entirety, a partnership, and an interest in a trust. The regulations specifically exclude from the term the proceeds of the operation of a mutual fund that is regularly and publicly traded, an institutional investor, or a profit-sharing plan that covers all employees (except that voting rights of employee stock plans may be attributed to anyone having authority to vote those shares).

To ensure that its SFA Program participation isn't jeopardized, a school must report an ownership change (including the name[s] of the person[s] involved) to the Department. On receiving the notification, the Department will investigate and notify the school whether a change in ownership resulting in a change of control has occurred that will require the school to submit a materially complete Application if it wishes to participate in the SFA Programs.

Steps to be Taken by Former Owners

If a school is changing control, the former owner(s) must notify the Department about the change and the date it occurs. This must be at the same time that the owner notifies the school's accrediting agency, but no later than 10 days after the change occurs. (If the former owner fails to notify the Department, the prospective owner is responsible for doing so.) The current owner also should notify the appropriate state agency that licensed or approved the school.

Payments to Eligible Students

Before the change in ownership, structure or governance takes place, the former owner should make sure that all students receive any SFA payments already due them for the current payment period and that all records are current and comply with federal regulations. If the school needs additional funds for its students for the current payment period, it should request them and disburse them to all eligible students before the change takes place.

The school loses its approval to participate in the SFA Programs when the change takes place. Generally, a school may

- use Pell Grant or campus-based funds that it has received or request additional Pell Grant or campus-based funds from the Department to satisfy any unpaid commitment made to a student from the date the school's participation ended until the scheduled completion date of the payment period, and
- credit a student's account with the proceeds of a second or subsequent disbursement of a FFEL Stafford or a Direct Loan to satisfy any unpaid commitment made to the student under the FFEL Stafford or Direct Loan Program from the date participation ends until the scheduled completion of that period of enrollment. (The proceeds of the first disbursement of the loan must have been delivered to the student or credited to the student's account prior to the end of the participation.)

The school should notify all new students that no federal aid funds can be disbursed until the school's eligibility is established and a new PPA signed by the Department is received.

The school may not award the SFA Program funds beginning on the date that the change becomes effective. If the school's prospective owner(s) wish the school to participate in one or more of the SFA Programs, the school must submit a materially complete Application to the Department.

Steps to be Taken by Prospective Owners

The prospective owner should request that the former owner provide copies of the school's existing ECAR, refund policy, any required default management plan, program reviews, audited financial statements (for at least the two most recently completed fiscal years), compliance audits, and an audited balance sheet showing the financial condition of the institution at the time of the change. The prospective owner will need this information to receive approval to participate.

Default Management Plan Required
Sec. 487(a)

Accompanying the application must be audited financial statements for the school's two most recently completed fiscal years, an audited balance sheet showing the financial condition of the school at the time of the change, and a default management plan, if required. Each participating school must demonstrate financial responsibility independently. If the entity that has acquired the school is an ongoing entity (partnership or corporation), the school must also submit completed audited financial statements of the acquiring entity for the last two consecutive fiscal years. (For information on financial responsibility and submitting audited financial statements, see Chapter 2.)

The school also must submit proof that its accreditation is continued under the new ownership or control, along with a photocopy of its state legal authorization under the new ownership.

The school may not award SFA Program funds until it receives a PPA signed on behalf of the Secretary.

Accepting Liabilities and Refund Policy
If the prospective owner(s) acquired the school or if the school is the result of a merger of two or more former schools, the prospective owner is liable for any debts from the former owner's SFA Program administration. The prospective owner accepts liability for any federal funds that were given to the school but that were improperly spent before the date the change in ownership, structure or governance became effective. The prospective owner must also abide by the refund policy for students enrolled before the date the change became effective and must honor all student enrollment contracts signed before the date of the change.

Effect of Cohort Default Requirements
As mentioned earlier, the school retains its current and past cohort default rates and must implement any requirements associated with those rates. In fact, cohort default rates calculated for fiscal years prior to the change in ownership may affect the school's SFA participation. A school with a change in ownership, structure or governance may be denied approval to participate in the SFA Programs on the basis of current default rates.

Amendments of 1998

Prior to the Amendments of 1998, a prospective owner was required to submit a new default management plan with the Application regardless of the level of the school's cohort default rate.

However, the Amendments of 1998 exempt a school from submitting a default management plan if (a) neither the subordinate institution nor parent institution has a cohort default rate of 10 percent or less and (b) the prospective owner does not own, and has not owned, any other school with a cohort default rate in excess of 10 percent. This provision is effective October 1, 1998.

Expiration of Certification
Sec. 498(g)

Audits and Closeout Procedures

Although a separate financial aid compliance audit is not required when there is a change in ownership, structure or governance, the prospective owner may choose to have the accounts audited before they are closed out. Any questions about SFA accounts or close-out procedures can be answered by the Department's Financial Management Specialists for the Pell Grant, campus-based, Direct Loan, or FFEL program. The prospective owner also should check with the Department's appropriate case management team for information on whether the school owes any Department liabilities resulting from program reviews or audits. See Chapter 11 for phone numbers.

Before the date of purchase, the prospective owner should make sure that all students have received their SFA Program award payments for payment periods and periods of enrollment that began before the date of purchase, that all SFA Program accounts have been closed out, and that all related reports have been filed properly.

Once the Department determines that a school that has undergone a change in ownership, structure or governance is eligible to participate in the SFA Programs, a new ECAR and signed PPA will be sent and appropriate offices will be notified that the school is certified to participate under the new ownership. The school may begin disbursing the SFA Program funds in the payment period or loan period (as applicable) in which the new PPA is signed on behalf of the Secretary.

Recertification

A school that wishes to continue participating in the SFA Programs must submit a materially complete Application requesting recertification 90 days prior to the expiration date on its current PPA or the Department otherwise notifies it that recertification is necessary. See page 215 for more information on time frames for submitting a recertification application.

Amendments of 1998

As mentioned previously, the 1992 reauthorization of the HEA required that every four years a school must be reapproved (recertified) to participate in the SFA Programs. The Amendments of 1998 extend the certification period to up to 6 years. In addition, the Amendments of 1998 require the Department to notify schools six months in advance of the expiration of their certification.

In addition, the Amendments direct the Department to publish special recertification regulations for foreign schools that receive less than $500,000 in FFEL loan funds.

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Designation as an Eligible Institution

A school must submit a materially complete Application requesting this certification category when it wishes to be designated as an eligible institution under the HEA but does not wish to participate to the point of awarding federal financial aid funds.

A school may request this type of limited designation so the school's students may receive deferments under federal student loan programs, be eligible for the HOPE Scholarship tax credit, or so the school may apply to participate in HEA programs other than the SFA Programs.

To meet the requirements for its students to defer student loan payments and to take part in other HEA programs, the school is required to be approved as an eligible institution—it is not actually required to award SFA funds. (See Chapter 1 for information on what constitutes an eligible institution.)

Reinstatement

A school must submit a materially complete Application requesting reinstatement when it wishes to participate again in one or more SFA Programs after voluntarily or involuntarily leaving the SFA Programs.

A school that voluntarily left one or more SFA Programs (and did not leave because of action about to be taken by the Department) may apply for reinstatement at any time.

A school that the Department terminated from participating in one or more SFA Programs (or that left one or more SFA Programs because it was about to be terminated or sanctioned) has a waiting period before it may apply to be reinstated.

SUBSTANTIVE CHANGES AND HOW TO REPORT THEM

A school is required to report changes to certain information on its approved Application. Some of these changes require the Department's written approval before the school may disburse the SFA Program funds; others do not (see the charts that follow).

Changes That Require the Department's Written Approval

(The number in parentheses refers to the number of the question on the Application.)

All Schools

- Change in accrediting agency* (#15)
- Change in state authorizing agency (#17)
- Change in institutional structure (#24)
- Change in educational programs outside of the scope of current approval (#26)
- Addition of nondegree programs outside of the scope of current approval (#27)
- Change from or to clock hours or credit hours (#27)
- Addition of a location (#30)
- Change to the SFA Programs for which the school is approved** (#37)

For-profit Schools Only

- Change in the type of ownership (#22)
- Change in ownership (#24)

*Notify the Department when you BEGIN making ANY change that deals with your school's institution-wide accreditation.

**Approvals from your accrediting agency and state authorizing agency are NOT required for this change.

When one of the changes that requires the Department's written approval occurs, a school must notify the Department by:

1) reporting the change and the date of the change to the Department via the electronic application within 10 calendar days of the change, and

2) As soon as the school has received approvals for the change from its accrediting agency and state authorizing agency it must send to the Department:

- copies of the approval for the change,
- any required documentation, and
- Section L of the *Application* containing the original signature of the appropriate person.

Changes Not Requiring the Department's Written Approval

All Schools

- Change to name of school* (#2)
- Change to the name of a CEO, President, Chancellor (#29)
- Change to the name of the chief fiscal officer, financial officer (#32)
- Address change for a principal location* (#3)
- Address change for other locations* (#36)
- Change to the school's third-party servicers that deal with the SFA Program funds (#38)

Private nonprofit and for-profit schools only

- Change to the Board of Directors (but not trustees) (#28)

Foreign schools only (including foreign graduate medical schools)

- Change to postsecondary authorization (#42)
- Change to degree authorization (#43)
- Change to program equivalency (#44)
- Change to program criteria (#45)
- Change to U.S. administrative and/or recruitment offices (#46)

Foreign graduate medical schools only

- Change to facility at which school provides graduate medical instruction (#47)
- Change to authorizing entity (#48)
- Change to approval of authorizing entity (#49)
- Change to length of program (#50)
- Change to programs located in the United States (#51)

*As soon as it has received approvals for the change from its accrediting agency and state authorization agency, a school must send the Department copies of the approvals for change.

When one of these changes occurs, a school must notify the Department by reporting the change and the date of the change to the Department via the electronic application within 10 calendar days of the change. In addition, the letter must include

- any required documentation, and
- Section L of the Application containing the original signature of the appropriate person.

Note that, for a change requiring written approval from the Department (unless otherwise noted) and for some changes that do not require written approval from the Department (noted on chart), a school must obtain approval from the appropriate accrediting agency and state authorizing agency.

Notifications of changes in ownership, structure or governance must be made to the Institutional Participation and Oversight Service at the address on page 159.

All other notifications must be sent by U. S. Postal Service to:

U. S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

or by commercial courier/overnight mail to:

U. S. Department of Education
Institutional Participation and Oversight Service
Room 3514
7th and D Streets, SW ROB-3 Building
Washington, DC 20407

Notification of School Closure or Bankruptcy

If a change occurs in an Application item not listed in one of the two charts, the school must update the information when it applies for recertification. However, if a school closes or files for bankruptcy, the school must notify the Department within 10 calendar days of either event by sending a letter on the school's letterhead that indicates the date the school closed or plans to close, or the date the school filed for bankruptcy, as appropriate.

When the Department is notified of a change, if further action is needed, it will tell the school how to proceed, including what materials and what additional completed sections of the Application need to be submitted. If a school has questions about changes and procedures, it should contact the Institutional Participation and Oversight Service.

After receiving the required materials (and depending on the circumstances), the Department will evaluate the change(s) and either approve or deny the change and notify the school.

ADDING LOCATIONS OR PROGRAMS

The ECAR that the Department sends to the school lists the educational programs and locations that are eligible. (The eligibility of a school and its programs does not automatically include separate locations and extensions.) If, after receipt of the ECAR, a school wishes to add a location at which at least 50% of an educational program is offered, it must notify the Department.

Upon receipt of this notice, the Department will either confirm the program's eligibility without requiring an application or will instruct the school to apply for an eligibility and certification determination. (A school that is adding a location must be able to show the Department that the location is properly accredited and licensed by the state.)

For a location to be added, it must meet all institutional eligibility requirements as described in Chapter 1, except the Two-Year Rule. Each site must be legally authorized. To apply for a determination of eligibility for an added location, the school must send the Department the required application sections, a copy of the accrediting agency's notice confirming that the new location is included in the school's accredited status, and a copy of the state legal authorization from each state in which the school is physically located.

The Department will review the information, and will evaluate the school's financial responsibility, administrative capability, and eligibility. Depending upon the circumstances, the Department may conduct an on-site review. If it approves the additional location, a revised ECAR and Approval Letter will be issued. The location is eligible as of the date of the Department's determination. The Department may require a recertification application and a new PPA, in which case the school may disburse funds to students enrolled at that location only after both the school and the Secretary have signed the new PPA. The Department will send the school a revised ECAR.

Note that if a proprietary institution or a postsecondary vocational institution attempts to acquire a closed school (or any locations of a closed school) as an additional location, and that closed school owes SFA refunds or liabilities that are not being properly repaid, the acquiring school must either assume responsibility for those liabilities or wait two years for that additional location to become eligible. (This applies to any acquisition of the closed school's assets, even an indirect acquisition.) The acquiring school will also receive a recalculated default rate because the acquiring school assumes the default rate of the closed school (or any additional locations of the closed school).

When School May Make Program Eligibility Determination

If a school adds an educational program after receiving its ECAR, there are two cases in which the school itself may determine the program's eligibility:

- the added program leads to an associate, bachelor's, professional, or graduate degree (and the school has already been approved to offer programs at that level); or

- the added program is at least 8 semester hours, 12 quarter hours, or 600 clock hours in length and prepares students for gainful employment in the same or related recognized occupation as an educational program that the Secretary already has designated as an eligible program at the school.

Before the school may determine these programs to be eligible and disburse funds to enrolled students, the school must have received both the required state and accrediting agency approvals.

Note, however, that if the school's self-determination of eligibility for an educational program is found to be incorrect, the school is liable for all SFA Program funds received for the program and all SFA Program funds received by or for students enrolled in that program.

Department Must Approve All Other Added Programs

In all other cases, the eligibility of an added educational program must be determined by the Department before the SFA Program funds can be awarded. The school must submit the required Application sections and a copy of approval of the new program from its accrediting agency and state authorizing agency. The Department will evaluate the new program and the school. If it approves the additional program, a revised ECAR and Approval Letter is issued for the school, and the school is eligible as of the date of the Department's determination. The school may begin to disburse the SFA Program funds to students enrolled in that program. (For more on program eligibility, see Chapter 1.)

Waivers

The law mandates percentages of telecommunications and/or correspondence courses, students enrolled under ability-to-benefit provisions, and incarcerated students at a participating school. If there is a change to any of a school's answers to the Yes/No questions in Section G of a submitted Application (which deal with enrollment thresholds in these areas), the school must notify the Department. The Department will advise the school of its options, including whether the school might be eligible for a waiver. (For more information, see Chapter 1.)

Changes in Accreditation

If a school decides to change its primary accrediting agency, it must notify the Institutional Participation and Oversight Service when it begins the process of obtaining accreditation from the second agency. As part of this notice, the school must submit materials relating to its prior accreditation, and materials demonstrating a reasonable cause for changing its accrediting agency. If a school fails to properly notify the Department, the Department will no longer recognize the school's existing accreditation.

If a school decides to become accredited by more than one institutional accrediting agency, it must submit to the Institutional Participation and Oversight Service (and to its current and prospective agency) the reasons for accreditation by more than one agency. This submission must be made when the school begins the process of obtaining the additional accreditation. If a school obtains additional accreditation and fails to properly submit to the Department its reasons for the additional accreditation, the Department will not recognize the school's accredited status with either agency.

If the Department ceases to recognize a school's accreditation, the school is no longer eligible to award SFA Program funds or take part in other programs under the Higher Education Act of 1965, as amended.

If a school becomes accredited by more than one agency, it must notify the Institutional Participation and Oversight Service of which agency's accreditation the school will use for the purpose of determining the school's institutional eligibility for the SFA Programs.

SINGLE IDENTIFIER INITIATIVE

NEW

The Department is taking steps to designate a single identification number for schools that participate in the SFA Programs. This single identification number will replace the multiple identification numbers that schools currently use for a variety of SFA Program functions. In 1997, the Department asked schools to verify all active and inactive program identifiers. In December 1998, the Department permanently warehoused these program identifier "crosswalks" in the Postsecondary Education Participant System (PEPS).

Originally, the Department planned to use an eight-digit OPEID as the single identifier. The Department was to implement the OPEID by the 1999-2000 award year. However, while the Single Identifier Initiative was in progress, President Clinton mandated implementation of recommendations to initiate electronic commerce on a government-wide basis. As a part of President Clinton's mandate, federal agencies and departments have adopted the Dun and Bradstreet Information Corporation's numbering system, the Data Universal Numbering (D-U-N-S), as a principal contractor, vendor and grantee identification code. A "Dear Colleague" letter published in March 1998 (GEN-98-8) provided schools with a detailed update of these changes.

Quality Assurance Program
Sec. 487(a)

The Department will implement the D-U-N-S identification system as the Single Identifier for all SFA participants: schools, lenders, servicers, and guarantors. The Department is examining the feasibility of implementing the D-U-N-S identification system as part of the software development for the 2001-2002 need analysis cycle beginning January 1, 2001 for the award year beginning July 1, 2001.

For additional information, a school may access the web site, http://www.sii.ed.gov or call 202-708-4608.

QUALITY ASSURANCE PROGRAM

Under the Quality Assurance (QA) Program, schools design and establish a comprehensive quality improvement program to increase award accuracy and strengthen their administration and delivery of SFA Programs and services. The emphasis of this program is on prevention or upfront correction and partnerships. It provides schools with the tools and incentives to accurately and effectively deliver student aid and to improve their service to students. It is based on the principles of Total Quality Management, with an annual cycle of assessment and problem identification with measurement, solution design and implementation, and monitoring of results for continuous improvement.

QA Program schools are exempt from certain verification requirements because they develop a school-specific program based on data gathered in the cycle of QA Program activities. Annual reporting requirements and periodic Quality Assurance site visits help ensure accountability and program integrity, and provide technical assistance. Schools that are interested in QA Program participation should contact the Performance and Accountability Improvement Branch at the following address or phone number:

U.S. Department of Education/OPE/SFAP/IPOS
Performance and Accountability Improvement Branch
400 Maryland Ave., SW
ROB-3, Room 3925
Washington, DC 20202-5232
(202)260-4788

If a school is interested in conducting a self assessment of its policies, procedures, and overall compliance with SFA requirements, it can use the "Comprehensive Management Assessments" instrument used in the QA Program. This assessment is universally applicable, helping any school determine its strengths and weaknesses in the following areas: institutional participation, fiscal management, recipient eligibility, award calculation and disbursement, and reporting and reconciliation.

Even if a school is not interested in participating in the QA Program, it would benefit from this self-assessment exercise. This assessment was made available to all schools during the 1997-98 award year.

The Amendments of 1998 made the following changes to the specific provisions governing the Quality Assurance Program:

- The current provisions relating to data verification are expanded to include the development and implementation of systems for processing and disbursing student aid and entrance and exit interviews.

- The criteria for the selection of participants are expanded to include a requirement to ensure the selection of a diverse group of schools with respect to size, mission, and geographical distribution.

- The Department is authorized to waive regulations dealing with reporting or verification requirements in the SFA Programs that are addressed in the institution's alternative management plan and prohibits the Department from waiving any statutory provisions.

- The Department is required to review and evaluate the QA Program conducted at each participating institution and to make recommendations to Congress regarding amendments to the law to streamline the administration and enhance the integrity of the student aid programs.

These provisions are NOT subject to the negotiated rulemaking process. All are effective October 1, 1998.

Experimental Sites Initiative
Sec. 487(c)

Amendments of 1998

EXPERIMENTAL SITES INITIATIVE

If a school believes that it has a better way to administer aspects of the SFA Programs than the way required by statute or regulation, it may apply to be an "experimental site." Using the authority under section 487A(d) of the Higher Education Act, the Department has approved exemptions to a variety of SFA statutory and regulatory requirements. So far, over 100 schools have been designated as experimental sites.

Thirteen areas of experimentation have been approved since the 1995-96 award year. They are:

- entrance loan counseling,

- exit loan counseling,

- multiple disbursement for single term loans,

- thirty-day delay in loan disbursements for first-time, first-year borrowers,

- loan fees in cost of attendance,

- loan proration for graduating borrowers,

- crediting SFA funds to prior year charges,

- crediting SFA funds to institutional charges,

- overaward tolerance,

- academic term,

- federal work-study time records

- federal work-study payment, and

- ability to benefit.

The effective dates for the first nine experiments are July 1, 1995 to June 30, 2000. The effective dates for the last four experiments are July 1, 1997 to June 30, 2002.

This partnership between ED and institutions encourages schools to develop and test alternative approaches to the current prescriptive requirements. By allowing flexibility in how entrance loan counseling is handled, for example, schools might develop methods that are less administratively burdensome, but more effective in providing loan information. The Department will use results from these experiences to continue reforming administration of the SFA Programs.

Amendments of 1998

The Amendments of 1998 made several changes to the provisions that govern the Experimental Sites Initiative:

- The Department is authorized to continue any experimental sites in existence on the date of enactment. Any previously approved activities that are not consistent with the Amendments must be discontinued no later than June 30, 1999.

- The Department must review and report to Congress on the experience of institutions that participated in the experimental sites program from 1995-1998. The report must include a list of participants and their experiments, the findings and conclusions resulting from those experiments, and recommendations for amendments to the law. Upon the submission of this report, the Department may select a limited number of institutions for participation as experimental sites to provide recommendations to the Department on the impact and effectiveness of proposed regulations or new management initiatives.

- Prior to approving additional experimental sites, the Department must consult with Congress and provide a list of institutions and the specific regulatory and statutory waivers, a statement of the objectives to be achieved, and the time period for the experiment.

- The Department may waive statutory requirements for participating schools based on the experiment except that the

Secretary may not waive provisions related to award rules, grant and loan maximums, and need analysis requirements.

These provisions are NOT subject to the negotiated rulemaking process. All are effective October 1, 1998.

For further information on the experimental sites initiative, please call the Performance and Accountability Improvement Branch at 202-260-4788.

Program Integrity

CHAPTER 11

In this chapter we will discuss the oversight responsibilities of accrediting agencies, states, and the Department. This oversight is necessary to ensure the integrity of the SFA Programs.

STATE AND ACCREDITING AGENCY ROLES

Part H of the HEA prescribes requirements for ensuring the integrity of the SFA Programs. In addition to the oversight responsibilities of the federal government, states and accrediting agencies play a part in overseeing a school's operations.

State Role

The Higher Education Amendments of 1998, Public Law 105-244 (the Amendments of 1998) officially repealed the State Postsecondary Review Program and replaced it with a subpart on the state role. (The State Postsecondary Review Program was added to the Higher Education Act in 1992; however, funds were never appropriated for the program.)

The law now requires that each state (through at least one state agency):

- furnish the Department, upon request, with information regarding licensing and other authorization for a school to operate in that state;
- promptly notify the Department of revocations of licensure or authorization; and
- promptly notify the Department of credible evidence that a school has committed fraud in the administration of the SFA Programs or has substantially violated a provision of the HEA.

These amendments to the law are all effective as of October 1, 1998.

State Role Cite
Subpart 1 of part H of the HEA

Amendments of 1998

Accrediting Agency Role
Subpart 2 of part H of the HEA

Accrediting Agency Role

The law establishes the general requirements for the recognition of accrediting agencies. One of these requirements states that an accrediting agency must meet criteria established by the Department. These criteria, which are found in 34 CFR part 602, allow the Department to determine whether it believes an accrediting agency to be a reliable authority on the quality of education offered by a school.

An accrediting agency can be recognized for institutional or programmatic accreditation. An institutional accrediting agency accredits the entire school. A programmatic accrediting agency accredits specific educational programs that prepare students for entry into a profession, occupation, or vocation.

An agency must have standards that effectively address the quality of a school or program in the following areas:

- Success with respect to student achievement in relation to mission, including, as appropriate, consideration of course completion, state licensing examination, and job placement rates.
- Curricula.
- Faculty.
- Facilities, equipment, and supplies.
- Fiscal and administrative capacity.
- Student support services.
- Recruiting and admissions practices, academic calendars, catalogs, publications, grading, and advertising.
- Measures of program length and the objectives of the degrees or credentials offered (see list of changes by the Amendments of 1998 below).
- Record of student complaints received by, or available to, the agency.
- Record of compliance with the school's SFA Program responsibilities, based on items such as default rate data, and the results of compliance audits and program reviews, and
- Any additional accreditation standards the accrediting agency deems appropriate.

Amendments of 1998

The Amendments of 1998 clarify that the Department will recognize, rather than approve, accrediting agencies. The Amendments also clarify that the Department establishes criteria, rather than standards, for such recognition. The Amendments of 1998 also made the following changes to the statutory accreditation requirements:

- To qualify as a nationally recognized accrediting agency, an agency must apply and enforce standards for accreditation that ensure that distance learning courses of study at a school are of sufficient quality to achieve their stated objectives for the duration of the school's accreditation period.

- To be a nationally recognized agency, an agency is required to have standards to assess a school. The Amendments alter the list of required standards by deleting the consideration of program length and tuition and fees in relation to the subject matter taught, and now require that the agency standards consider "measures of program length" and the objectives of the degree or credential offered.

- The requirements for unannounced site visits by an accrediting agency are changed from requiring at least one visit at schools providing vocational education and training, to authorizing, but not requiring, unannounced site visits at any school.

- More detailed procedures are provided for the Department to follow in making determinations concerning the limitation, suspension, or termination of an agency's recognition as a nationally recognized accrediting agency.

These amendments to the law are all effective as of October 1, 1998.

THE DEPARTMENT'S ROLE

One of the Department's functions is to oversee the SFA Programs to ensure that they are administered properly. In this chapter we will discuss the two major types of oversight review, audits and program reviews, that are conducted at schools that participate in the SFA Programs. This chapter also includes information on requirements when a school's eligibility and/or participation ends and information on corrective actions and sanctions.

If in a program review or audit a school is identified as having disbursed improperly SFA Program funds, the school must restore those funds as appropriate. Program reviews and audits are not conducted solely to recover funds, but also to identify procedural problems at the school and recommend solutions.

If a school is cited for fraud or other serious program abuses in a program review or audit, the school may be subject to corrective action and/or sanctions, such as fines, emergency action, or limitation, suspension, or termination which are discussed later in this chapter.

Your Comments Are Important

The Small Business and Agriculture Regulatory Enforcement Ombudsman and 10 Regional Fairness Boards were established to receive comments from small businesses about federal agency enforcement actions. The Ombudsman will annually evaluate the enforcement activities and rate each agency's responsiveness to small business. If you wish to comment on the enforcement actions of the Department of Education, call 1-888-REG-Fair (1-888-734-3247).

Audit Requirements for Schools
Sec. 487(c)(1)(A)

Independent Auditor
An independent CPA or government auditor, except that a government auditor must meet the Government Auditing Standards qualification and independence standards, including standards related to organizational independence.

Audit Requirements for Schools

The law requires that a school that participates in any SFA Program, including participating foreign schools, must have an independent auditor conduct, at least once a year, an audit of a school's compliance with the laws and regulations that are applicable to the SFA Programs in which the school participates (a "compliance audit"), and an audit of the school's financial statements (a "financial statements audit").

While a compliance audit covers the school's administration of the SFA Programs, a financial statements audit provides the Department with information necessary to evaluate a school's financial responsibility (see Chapter 4).

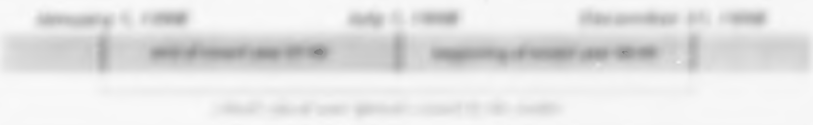
As in the past, schools can meet these audit requirements by having an audit performed under the guidelines of the Department's *SFA Audit Guide, Compliance Audits, Attestation Engagements of Federal Student Financial Assistance Programs at Participating Institutions* or, if applicable, by having an audit performed under the guidelines of the Single Audit Act (known as A-133 audits). Single Audit Act audits are discussed on page 241.

Simultaneous Audit Submissions

A school that has an audit performed under the SFA Audit Guide must submit simultaneously both the compliance audit and the audited financial statements within six months of the end of the school's fiscal year. Both the compliance audit and the financial statements audit must be performed on a fiscal year basis. In addition, both audits must be prepared in accordance with Generally Accepted Government Auditing Standards (GAGAS). The compliance audit and financial statements audit may be performed by different auditors. However, both audits must be submitted as one package.

The compliance audit of a school that has a fiscal year that does not coincide with an award year will cover parts of two award years (see the example below).

Fiscal Year Not Equal to Award Year Example


January 1, 1998
July 1, 1998
December 31, 1998
end of award year 97-98
beginning of award year 98-99
school's fiscal year (period covered by the audit)

The definition of independent auditor makes clear that the compliance and financial statements audits submitted under these regulations must be performed by independent certified public accountants (CPAs) or by government auditors that meet certain governmental standards.

The Amendments of 1998 created an exception to the annual audit requirement. A school may submit compliance and financial statements audits every three years (rather than every year), at the Department's discretion, if the school

Amendments of 1998

- receives less than $200,000 in SFA Program funds during the two award years prior to the audit period, and
- submits a letter of credit for at least half of the annual potential liabilities as determined by the Department.

This exception to the annual audit requirement may not be granted for the award year preceding a school's required recertification. This exception does not apply to foreign schools.

The Office of Inspector General (OIG) also conducts audits, usually in cases where there may be concern over the school's administration of the SFA Programs. A federal audit such as this does not satisfy the requirement that a school have an annual compliance and financial statements audit.

Types of Audit Guidelines

As mentioned previously, in addition to audits performed under the SFA Audit Guide, audits performed under the guidelines of the Single Audit Act (chapter 75 of Title 31, U.S.C.) will also meet the Department's audit requirements.

The type of audit a school or servicer may have depends on its method of control: public, for-profit, or nonprofit. All for-profit schools must comply with the audit requirements by having an SFA compliance audit under the criteria of the Department's SFA Audit Guide. All public and nonprofit schools must comply with the Single Audit Act, which requires these schools to have an audit performed in accordance with Office of Management and Budget's (OMB) Circular A-133. (Circular A-133 allows an SFA compliance audit under the criteria of the Department's Audit Guide under limited circumstances.)

Circular A-133 is titled *Audits of States, Local Governments, and Non-Profit Organizations* and is applicable to nonprofit postsecondary schools, states, local governments, and Indian tribal governments. For many schools, this is a combined audit of all the federal programs at that school. OMB circular A-133 is available through the OMB Home Page at http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a133/a133.html, or by calling OMB's Publication Office at (202) 395-7332.

Audits performed under the Single Audit Act have distinct auditing and submission requirements. A school submitting an audit under the guidelines of the Single Audit Act must use the submission deadlines established by the Single Audit Act.

[illegible]

Under the requirements of Circular A-133, a school that expends less than $300,000 of federal funds during a fiscal year is exempt from submitting the annual A-133 audit. However, if such a school has financial statements, the Department may request them. The financial statements can be submitted to the Department unaudited.

Circular A-133 permits the submission of program-specific audits if an entity expends funds in only one federal program AND the program's regulations do not require a financial statements audit. Because the SFA Program regulations do require a financial statement audit, a school may not submit a program-specific audit to satisfy the Department's audit submission requirements.

Audit Submission Dates

As mentioned previously, beginning with the 1997-98 award year, a school's or servicer's annual compliance and financial statement audit performed under the SFA Audit Guide must be based upon the fiscal year and submitted to the Department within six months after the end of the school's or servicer's fiscal year. (Again, these requirements do not apply to audits performed under the Single Audit Act, which are due as specified in OMB Circular A-133.)

The chart that follows lists audit due dates and what period the audit must cover for audits due in 1999 and 2000. The chart provides information for the most common institutional fiscal year end dates.

Audit submission due dates for 1999 and 2000

School's fiscal year end date	Both audits due	Period audited (financial and compliance)	School's fiscal year end date	Both audits due	Period audited (financial and compliance)
September 30, 1998	March 31, 1999	October 1, 1997 through September 30, 1998	September 30, 1999	March 31, 2000	October 1, 1998 through September 30, 1999
December 31, 1998	June 30, 1999	January 1, 1998 through December 31, 1998	December 31, 1999	June 30, 2000	January 1, 1999 through December 31, 1999
March 31, 1999	September 30, 1999	April 1, 1998 through March 31, 1999	March 31, 2000	September 30, 2000	April 1, 1999 through March 31, 2000
June 30, 1999	December 31, 1999	July 1, 1998 through June 30, 1999	June 30, 2000	December 31, 2000	July 1, 1999 through June 30, 2000

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Generally, a school's first audit performed under these requirements must cover the entire period of time since the school began to participate in the SFA Programs. Each subsequent audit must cover the period since the preceding audit that is accepted by the Department.

Compliance Audit Submission Requirements

The compliance audit must be conducted in accordance with:

- the general standards and the standards for compliance audits contained in the U.S. General Accounting Office's (GAO's) *Government Auditing Standards*, and
- applicable audit guides from the Department's Office of the Inspector General.

In conducting an audit, a school or servicer and its auditor should use the Department of Education's latest SFA Audit Guide, the accounting and recordkeeping manual for the SFA Programs (known as The Blue Book), and the ED Payment System Users Manual or GAPS Users Guide, as applicable.

Schools may request copies of the SFA Audit Guide and The Blue Book by writing to: Federal Student Information Center, P.O. Box 84, Washington, DC 20044.

The auditor or auditing firm the school or servicer uses for its required nonfederal audit may be the same one that usually audits the school's or servicer's fiscal transactions. To produce unbiased conclusions, the auditor must be independent of those authorizing the expenditure of SFA Program funds.

The Department may require a school to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs or accrediting agencies.

Financial Statements Audit Submission Requirements

A school's audited financial statements must cover the school's most recently completed fiscal year. The Department uses the information in a school's audited financial statements to evaluate the school's financial responsibility (see Chapter 8). In addition to a school's audited financial statements, the Department may require that the school submit additional information. For example, the Department may require a school to submit or provide access to the accountant's work papers. Also, if the Department finds it necessary to evaluate a particular school's financial condition, the Department can require a school to submit a audited financial statement more frequently than once a year.

Financial statements must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP), and audited by an independent auditor in accordance with GAGAS.

and other guidance contained in OMB Circular A-133 or in audit guides from the Department's Office of the Inspector General, as applicable.

Consolidated Statements

In some cases, a school's relationship with another entity may cause the Department to require a school to submit additional financial statements of the school and the entity, such as: audited consolidated financial statements; audited full consolidating financial statements; audited combined financial statements; or, under certain circumstances, audited financial statements of one or more related parties. This occurs when the Department determines that the activities or financial health of another entity may impact upon the school's total financial health. So that the Department can make this determination, a school must include in its audited financial statements a detailed description of related entities based on the definition of a related entity in the Statement of Financial Accounting Standards (SFAS) 57. In addition, the description must include all related parties and a level of detail that would enable the Department to identify readily the related party. This information may include, but is not limited to, the name, location, and description of the related entity, including the nature and amount of any transaction between the related party and the school, financial or otherwise, regardless of when it occurred.

A proprietary school must disclose the percentage of its revenues derived from the SFA Programs that the school received during the fiscal year covered by the audit as a footnote to its audited financial statements. Guidance on footnote disclosure can be found in the SFA Audit Guide, and in 34 CFR 600.5, and appropriate accounting references. Information regarding the calculation of this percentage (the "90/10 Rule") is found in Chapter 1.

Audits for Foreign Schools

Foreign schools must also submit an annual compliance audit and audited financial statements. However, because financial responsibility requirements vary for foreign schools based on the amount of SFA Program funds received by the school, the requirements for preparation of the financial statements also vary. A school that received less than $500,000 (in U.S. dollars) in SFA Program funds during its most recently completed fiscal year may have its audited financial statements prepared according to the standards of the school's home country. A foreign school that received $500,000 or more in SFA Program funds during its most recently completed fiscal year must have its audited financial statements translated and presented for analysis under U.S. Generally Accepted Accounting Principles (GAAP) and Generally Accepted Government Auditing Standards (GAGAS). See Chapter 4 for more information on financial responsibility determinations for foreign schools.

Audits for Third-Party Servicers

There are also annual audited financial statement and compliance audit requirements for third-party servicers. A third-party servicer must submit an annual compliance audit. However, if a servicer contracts with only one SFA school, and that school's own audit sufficiently covers all the functions performed by the servicer, the servicer does not have to submit a compliance audit. If a servicer contracts with several SFA schools, a single compliance audit can be performed that covers all its administrative services for each school. A servicer must submit its compliance audit within six months after the last day of the servicer's fiscal year. The Department may require a servicer to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs, or accrediting agencies.

In addition to submitting a compliance audit, a servicer that enters into a contract with a lender or guaranty agency to administer any aspect of the lender's or guaranty agency's programs must submit annually audited financial statements. The financial statements must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) and audited by an independent auditor in accordance with GAGAS and any other guidance contained in audit guides issued by the Department's Office of the Inspector General.

Guidance for audits of third-party servicers is found in the Lender-Servicer Audit Guide, published in December 1996 and in the SFA Audit Guide.

The July 1997 SFA Audit Guide announced that the first audit for a third-party servicer was due within six months after the issuance of the 1997 SFA Audit Guide, or six months after the end of the servicer's fiscal year, whichever was later.

NEW

A school may never use a third-party servicer's audit in place of its own required audit, because the school is ultimately liable for its own violations as well as those incurred by its third-party servicers. See Chapter 2 for more information on third-party servicers.

Having the Audit Performed

The school or servicer must make its program and fiscal records, as well as individual student records, available to the auditor. (Required recordkeeping is discussed in Chapter 8.) Both the financial aid and business offices should be aware of the dates the auditors will be at the school, and make sure that someone is on hand to provide requested documents and answer questions during that period.

At the end of the on-site review, the auditor will hold an exit interview. At a school, this exit interview is usually conducted with the personnel from the school's financial aid and other relevant offices. The exit interview is not only an opportunity for the auditor to suggest improvements in procedures, but it also gives the school or servicer a chance to discuss the draft report and review any discrepancies cited in the report. The exit interview is a good time to resolve any disagreements before the final report is prepared.

Access

Includes the right to copy records (including computer records), to examine computer programs and data, and to interview employees without the presence of management or the presence of the school's or a servicer's tape recorder.

The final report will be prepared by the auditor and submitted to the school or servicer.

Submitting Audits

The school or servicer must submit five copies of the SFA Audit Guide audit report and the school's or servicer's Corrective Action Plan (CAP) to the Department's Data Management and Analysis Division at the following address:

By U.S. Postal Service:

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20026-4805

By commercial overnight mail/courier delivery:

U.S. Department of Education
Institutional Participation and Oversight Service
7th & D Streets, S.W.
GSA Building, Room 3514
Washington, DC 20407

A-133 audits must be submitted to the

Federal Audit Clearinghouse
Bureau of the Census
P.O. Box 5000
Jeffersonville, Indiana 47199-5000

The Federal Audit Clearinghouse will process these audits for the Department. Although the OIG is not the submission point for these audits, the OIG will provide technical assistance on these audits to schools and auditors.

For an audit performed under the Department's SFA Audit Guide, the Department reviews the audit report for format, completeness, and to ensure that it complies with the government's auditing standards.

Based on the audit findings and the school's or servicer's written explanation, the Department will determine if any funds were spent improperly. The school or servicer must repay any improperly spent funds within 45 days, unless the school or servicer has properly appealed the decision.

Access to Records

Once the audit is complete, the school or servicer must give the Department and the OIG access to any records or other documents necessary to review the audit. A school that uses a third-party servicer must also give the Department and the OIG access to records or other documents necessary to review a third-party servicer's compliance or financial statements audit. In addition, the school's or servicer's contract with the auditor must specify that the auditor will also give the Department and the OIG access to the records and documents related to the audit, including work papers. In all cases, access to records includes the ability of the Department or OIG to make copies of the records.

Throughout the audit process, and for other examinations such as program reviews and state reviews, the school or servicer is required to cooperate fully with its independent auditor, the Department and its Inspector General, the Comptroller General of the United States, the appropriate guaranty agency and accrediting agency. Cooperation includes timely and reasonable access to records (including computer records) for examination and copying, and to personnel for the purpose of obtaining relevant information.

PROGRAM REVIEWS

In addition to reviewing audits, the Department conducts its own program reviews to identify possible problems in a school's SFA administration. A program review covers many of the same areas as an audit, including fiscal operations and accounting procedures, as well as the school's compliance with the specific program requirements for student eligibility and awards. However, program reviews tend to focus more on regulatory requirements that are specific to the SFA Programs. For example, the program review team will examine student records and admissions records, fund requests and transfers, records pertaining to due diligence and the collection of Federal Perkins Loans, time sheets and pay rates for the Federal Work-Study (FWS) Program, and documents related to the reporting process for the Federal Pell Grant and campus-based programs.

Selection of Schools for Review

The Amendments of 1998 require the Department to give priority in program reviews to schools that meet certain criteria. Prior to the Amendments, the law stated that the Department was permitted, but was not required, to give priority to schools that met the criteria specified in the law. These criteria (as modified by the Amendments where noted) are:

Amendments of 1998

- A school has a cohort default rate in excess of 25 percent or a rate which places the school in the highest 25 percent of such schools;
- A school has a default rate in dollar volume which places the school in the highest 25 percent of such schools;
- A school has a significant fluctuation in Federal Stafford Loan volume, Direct Stafford Loan volume or Federal Pell Grant awards, that are not accounted for by changes in the programs; (The Amendments clarified that significant fluctuations in amounts of aid received by schools are those that do not relate

to programmatic changes and added Direct Loans to the list of programs.)

- A school is reported to have deficiencies or financial aid problems by the appropriate state agency or accrediting agency;

- A school has high annual dropout rates;

- It is determined by the Department that the school may pose a significant risk of failure to comply with the administrative capability or financial responsibility requirements. (The Amendments more clearly defined the other institutions that the Secretary may target for program reviews as those that pose a significant risk of failure.)

In addition, the Amendments added the following special administrative rules under which the Department is required to:

- Establish guidelines designed to ensure uniformity of practice in the conduct of program reviews.

- Make copies of all review guidelines and procedures available to all participating schools.

- Permit schools to correct administrative, accounting, or record keeping errors if the errors are not part of a pattern and there is no evidence of fraud or misconduct.

- Inform the appropriate state and accrediting agency whenever it takes action against a school.

The Amendments of 1998 also require civil penalties arising from a program review or audit to be based upon the gravity of the violation.

These provisions are not subject to the negotiated rulemaking process. These provisions are effective October 1, 1998.

Written Report

After the Department performs a program review of a school, the program review team prepares a written report that will be sent to the school within approximately 60 days of the review. The school may respond to this report if it wishes to offer additional information to support its position, or if it disagrees with any of the report's conclusions. When the Department has fully considered the school's response and all issues have been resolved, the Department official will send a copy of the final program review determination to the school.

It may occasionally be necessary for Department officials to perform an unannounced program review. The General Provisions regulations stipulate that Department officials provide a school with a written request for a program review, but do not preclude the

Department from providing such a request at the time the reviewers arrive at the school.

In an unannounced program review, the Department reviewers will present a written request to school officials before beginning the review. The school is expected to have its records organized and readily available, without objection to providing access to those records. However, because certain school officials may not be immediately available during the review, the school may be afforded additional time to submit information regarding the review findings. The Department has regulatory authority to take an emergency action if a school denies access to the reviewers performing an unannounced program review (see page 256). School officials will be informed if an emergency action is to be taken.

GUARANTY AGENCY REVIEWS

The FFEL Program regulations also require guaranty agencies to conduct program reviews at postsecondary schools. A guaranty agency must conduct biennial (once every two years) on-site reviews of at least all schools for which it is the principal guaranty agency that have a cohort default rate for either of the two preceding fiscal years that exceeds 20% (unless a the Department requires the school to take specific default reduction measures or if the total amount of loans entering repayment in each of those fiscal years does not exceed $100,000). Alternatively, a guaranty agency may use its own criteria to select schools for the biennial on-site reviews if the Department approves the agency's proposed alternative selection methodology. A program review conducted by a guaranty agency is similar to a Department program review, consisting of an entrance interview, a review of student records, an exit interview, and a written report. However, the guaranty agency's review will focus on how the school meets FFEL-specific requirements, such as

- certification of the loan application,
- maintenance of records supporting the student's loan eligibility,
- processing procedures and payment of loan monies, and
- prompt lender notification when the student changes enrollment status, such as complete withdrawal.

Two copies of the guaranty agency's report are forwarded to the Department, including the school's payment if liabilities were assessed.

APPEALING AUDIT AND PROGRAM REVIEW DETERMINATIONS

The law allows for appeals of final audit or program review determinations. Note that only a final determination may be appealed. The letter conveying a final audit determination is clearly identified as a "FINAL AUDIT DETERMINATION LETTER" (FAD) and explains the appeals procedures. For a program review, the final determination letter is marked "FINAL PROGRAM REVIEW DETERMINATION LETTER."

If a school or servicer wants to appeal an audit or program review determination, it must appeal, in writing, to the Departmental official identified in the determination within 45 days after it receives the determination. If the school or servicer makes such a request, the determination will be reviewed by an impartial hearing official appointed by the Department. In most cases, an oral hearing will not be required. The school or servicer and the Department must submit briefs with any accompanying materials to the official, and provide the other party with a copy of its submission at the same time. If the final decision is appealed by either party, the Secretary will review it.

If the hearing official (or the Secretary) finds that the school or servicer improperly expended funds or otherwise failed to comply with applicable program rules and requirements, the Department will collect the liability owed, if any. The school or servicer must repay the funds within 45 days of the Department's notification of the liability, unless the Department grants an extension. At its option, the Department may elect to use an administrative offset to collect the funds owed.

REQUIREMENTS WHEN A SCHOOL CEASES TO BE AN ELIGIBLE INSTITUTION

A school loses its eligibility to participate in the SFA Programs when it no longer meets the requirements of 34 CFR Part 600, certain requirements of Part 668 or when the Department terminates the school under Subpart G of the General Provisions. Examples of situations that trigger loss of eligibility to participate include

- excessive student-loan cohort default rates,
- loss of accreditation,
- loss of state licensure,
- the PPA expires or is terminated by the Department,
- provisional certification is revoked by the Department,
- the school closes or stops providing educational instruction (for a reason other than a normal vacation period or as a result of a natural disaster), and
- the school files a petition for bankruptcy.

In general, a school that ceases to be eligible must notify the Institutional Participation and Oversight Service within 30 days of its loss of eligibility to participate in the SFA Programs. Requirements for notifying the Department are in 34 CFR 600.40.

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Loss of Accreditation

When a school loses its institution-wide accreditation, the Department generally may not certify or recertify that school to participate in any SFA Program for two years after the school has had its accreditation withdrawn, revoked, or otherwise terminated for cause or a school has voluntarily withdrawn under a show cause or suspension order. If a school wishes to be reinstated, it must submit a fully completed Application to the Department.

Exceptions

The Department will not recertify a school that has lost its institution-wide accreditation in the previous two years unless the original accrediting agency rescinds its decision to terminate the school's accreditation. (The school may not be recertified on the basis of accreditation granted by a different accrediting agency during the two-year period.) Similarly, if a school voluntarily withdrew from accreditation during the last two years under a "show cause" or suspension order, the Department will not recertify unless the original order is rescinded by the accrediting agency.

Other exceptions:

- If the Department determines that loss of institution-wide accreditation was due to the school's religious mission or affiliation, the school can remain certified for up to 18 months while it obtains alternative accreditation; and

- If a school's institution-wide accrediting agency loses its Department recognition, the school has up to 18 months to obtain new accreditation.

Note that it is possible for accreditation to be withdrawn from one of the programs at a school without affecting the accreditation (and eligibility) of other programs at the school.

REQUIREMENTS WHEN A SCHOOL'S SFA PARTICIPATION ENDS

A school may stop participating in the SFA Programs voluntarily or it may be required to leave involuntarily. In either situation, there are required close-out procedures to follow.

CLARIFICATION

A separate close out audit is not required if a school closes a branch campus because the next due compliance audit for the school must report on the use of SFA Program funds at the closed location. However, the school must notify the Department of the branch closure. See Chapter 10 for information on reporting information to the Department.

VOLUNTARY WITHDRAWAL FROM SFA PARTICIPATION

A school may voluntarily withdraw from participating in one or all of the SFA Programs. This might be for any number of reasons. For instance, a school might wish to withdraw from the Perkins Loan Program to work on lowering high student-loan cohort default rates. To withdraw from one or all of the SFA Programs, the school must notify the Department in writing at the general address for the Institutional Participation and Oversight Service (see page 211). For more information on these requirements and procedures, contact the appropriate case management team. Note: A school that withdrew voluntarily (for instance, to lower its default rate) can request to participate again without the waiting period required for a school that was terminated from the program involuntarily or withdrew voluntarily while under a show cause or suspension order.

Withdrawing from the SFA Programs while under a termination order or other sanction—or to avoid being placed under them—is not considered voluntary withdrawal.

INVOLUNTARY WITHDRAWAL FROM SFA PARTICIPATION

A school's participation ends in the following circumstances:

- The school closes or stops providing instruction (for a reason other than normal vacation periods or as a result of a natural disaster that directly affects the school or its students). Note: If the school closes its main campus or stops providing instruction on its main campus, its loss of eligibility includes all its locations and programs.
- The school loses its eligibility.
- The school's participation is terminated under Subpart G.
- The school's period of participation expires or the school's provisional certification is revoked.
- The school's PPA is terminated or expired.
- The school's cohort default rate exceeds the limit.

If a school ceases to provide educational instruction in all programs, the school should make arrangements for its students to complete their programs. If the school chooses to enter into a formal teachout arrangement, the school should contact the appropriate case management team for guidance.

When Participation Ends

When a school's participation in an SFA Program ends—for whatever reason—the school must immediately notify the Department and comply with the following minimum requirements:

- Within 45 days of the effective ending date of participation, submit to the Department all financial reports, performance reports and other reports required by each appropriate SFA Program regulation, as well as a dated letter of engagement for an audit by an independent public accountant (IPA) of all SFA

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Program funds received under the program(s). The completed audit report must be submitted to the Department within 45 days after the date of the letter of engagement.

- Report to the Department on the arrangements for retaining and storing (for the remainder of the appropriate retention period described in 34 CFR 668.24) all records concerning the school's management of the appropriate SFA Programs. (See Chapter 8.)

- Tell the Department how the school will provide for collecting any outstanding SFA Program student loans held by the school.

- Refund students' unearned tuition and fees. (See Chapter 6.)

Additional Closeout Procedures

In addition, a school that closes must refund to the federal government or, following written instructions from the Department, otherwise distribute any unexpended SFA Program funds it has received (minus its administrative cost allowance, if applicable). The school must also return to the appropriate lender(s) any loan proceeds the school received but has not disbursed to students. If the school's participation in the State Student Incentive Grant (SSIG) Program ends, the school must inform the state and follow the state's instructions.

If a school's participation ends during a payment period (or enrollment period for FFEL Programs), but the school continues to provide education in the formerly eligible program until the end of the payment or enrollment period, the school may

- use the SFA Program funds in its possession to satisfy unpaid Pell Grant or campus-based program commitments made to students for that payment period or for previously completed payment periods before the school's participation ended. (The school may request additional funds from the Department to meet these commitments.)

- satisfy any unpaid FFEL commitments made to students for that period of enrollment by delivering subsequent FFEL disbursements to the students or by crediting them to the students' accounts (if the first disbursement already was delivered or credited before the school's participation ended).

- use the SFA Program funds in its possession to satisfy unpaid Direct Loan commitments made to students for that period of enrollment before participation ended by delivering subsequent Direct Loan disbursements to the students or by crediting them to their accounts (if the first disbursement already was delivered or credited to the students' accounts before the school's participation ended). The school may request additional funds from the Department to fulfill this commitment.

Contact the Department's appropriate regional office staff for guidance in fulfilling these requirements and responsibilities.

CASE MANAGEMENT

Case management is the Department's new approach to oversight of schools that participate in the SFA Programs. Case management is designed to provide the Department with a thorough picture of a school's overall compliance through the use of Case Teams.

The Department's Institutional Participation and Oversight Service (IPOS) has Case Teams which are composed of both regional and Washington, DC staff. Each team is assigned a portfolio of schools. The team is responsible for all oversight functions for the schools in its portfolio. These functions include audit resolution, program reviews, financial statement analysis, and recertification. In addition, in January 1998, the Department announced the addition of Institutional Improvement Specialists for each Case Team. (See "Dear Colleague" letter GEN-98-4). The Institutional Improvement Specialists are responsible for compliance improvement. The Specialists seek to improve compliance by offering targeted technical assistance and presentations on IPOS-related policies and procedures.

Each school is assigned a Case Manager who leads the team in its evaluation of that school. The entire team will evaluate information on the school from a variety of sources to identify any compliance problems at the school. The team can then assess potential risk to the SFA Programs and determine appropriate action. Once appropriate actions are decided upon, the Case Manager assigned to the school ensures that the recommended actions are taken.

Case Teams will collect and review information on a school from many sources including, but not limited to

- applications for recertification,
- financial and compliance audits,
- state agencies,
- accrediting agencies and licensing boards,
- student complaints, and
- Department databases.

Possible Actions

A case team may decide to take actions which include, but are not limited to

- initiating recertification or provisional certification,
- initiating a program review,

- establishing liabilities,
- developing a strategy for providing technical assistance,
- transferring the school to the reimbursement payment method (see Chapter 5),
- requiring a letter of credit, and
- referring the school for an enforcement action.

Administrative Subpoena Authority Cite
Sec. 490A

Actions do not always have to be negative. For example, the case team can recommend a school for participation in the Quality Assurance Program (see Chapter 10.)

The Department will use a system of risk analysis to identify schools with the greatest need for oversight. The Department will use the analysis of various Department data systems to generate a risk score for a school. This will enable the Department to target resources to those schools that present the highest risk to the government.

Case management is beneficial to schools also because a school can contact one team that will have all information on the school available in one place. (For a list of contact phone numbers for the regional case management teams, see page 259.)

CORRECTIVE ACTIONS AND SANCTIONS

Administrative Subpoena Authority

Amendments of 1998

The Amendments of 1998 give the Department the authority to issue administrative subpoenas to assist in conducting investigations of possible violations of the provisions of SFA Programs. In addition, the law authorizes the Department to request the Attorney General to invoke the assistance of any court of the United States for purposes of enforcement of a subpoena if necessary. This provision is effective October 1, 1998.

Sanctions

Sanctions include emergency actions, fines, limitations, suspensions, and terminations.

The Department will sanction any school that

- violates the law or regulations governing the SFA Programs, its PPA, or any agreement made under the law or regulations; and/or
- substantially misrepresents the nature of its educational programs, its financial charges, or its graduates' employability. (For details on misrepresentation, see Chapter 7.)

Similarly, the Department may also sanction a third-party servicer that performs functions related to the SFA Programs. Further, the

Department has the authority to sanction a group of schools or servicers if it finds that a person or entity with substantial control over all schools or servicers within the group has violated any of the SFA Program requirements or has been suspended or debarred from program participation. (See Chapter 2.)

Actions Due to Program Violations or Misrepresentation

If it appears that a school has violated the SFA Program requirements, the Department may allow the school to respond to the problem and indicate how it will correct it. If this informal approach fails to correct the situation, or if the school has repeatedly violated the law or regulations, the Department may take emergency action, fine the school, or initiate a limitation, suspension or termination of SFA Program participation.

In addition, the Department has the authority to terminate a school or program that no longer meets the eligibility criteria given in Chapter 1. For details on steps that a school should follow in any of these situations, see Subpart G of the General Provisions regulations and Section 600.41 of the Institutional Eligibility regulations.

Emergency Action

The Department may take emergency action to withhold SFA Program funds from a school or its students if the Department receives information, determined by a Department official to be reliable, that the school is violating applicable laws, regulations, special arrangements, agreements, or limitations. To take an emergency action, the Department official must determine that

- the school is misusing federal funds,
- immediate action is necessary to stop this misuse, and
- the potential loss outweighs the importance of using established procedures for limitation, suspension, and termination.

The school is notified by registered mail (or other expeditious means) of the emergency action and the reasons for it. The action becomes effective on the date the notice is mailed.

An emergency action suspends the school's participation in all SFA Programs and prohibits the school from disbursing SFA Program funds or certifying FFEL applications. The action may not last more than 30 days unless a limitation, suspension, or termination proceeding is initiated during that period. In that case, the emergency action is extended until the proceeding, including any appeal, is concluded. The school is given an opportunity to "show cause" that the action is unwarranted.

Fine

The Department may fine a school up $25,000 for each statutory or regulatory violation. (The Department first notifies the school of its intent to fine so the school can, if it chooses, request a hearing.) If the school is proven guilty of the violation(s), it may appeal to the Department for a compromise on the amount of the fine(s) imposed at the hearing. In determining the amount owed by the school, the Department will consider the school's size and the seriousness of its violation or misrepresentation.

Limitation

Under a limitation, a school agrees to abide by certain specific conditions or restrictions as it administers SFA Program funds; by doing so, it is allowed to continue participating in the SFA Programs. A limitation lasts for at least 12 months. If the school fails to abide by the limitation's conditions, a termination proceeding may be initiated.

Suspension

A suspension removes a school from participation in the SFA Programs for a period not to exceed 60 days (unless a limitation or termination or proceeding has begun). A suspension action is used when a school can be expected to correct an SFA Program violation in a short time.

Termination

A termination ends a school's participation in the SFA Programs. A school that has violated the law or regulations governing the SFA Programs, its PPA, or any other agreement made under SFA regulations and was terminated from participating in the SFA Programs generally may not apply to be reinstated for 18 months. A school that substantially misrepresented the nature of its educational programs, its financial charges, or the employability of its graduates, may not be reinstated for at least three months.

Corrective Action

As part of any fine, limitation, suspension, or termination proceeding, the Department may require a school to take corrective action. This may include making payments to eligible students or repaying illegally used funds to the Department. In addition, the Department may offset any funds to be repaid against any benefits or claims due the school.

Possibility of Reinstatement

As mentioned previously, a school requesting reinstatement in the SFA Programs must submit a fully completed Application to the Department and demonstrate that it meets the standards in Subpart B of the General Provisions. As part of the reinstatement process, the school must show that the school has corrected the violation(s) on which its termination was based, including repaying all funds (to the Department or to the eligible recipients) that were improperly received, disbursed, caused to be disbursed, or withheld. The Department may approve the request, deny the request, or approve the request subject to limitations (such as granting the school provisional certification). If the Department approves the reinstatement request, the school will receive a new ECAR and enter into a new PPA.

Criminal Penalties Cite
Sec 490

Criminal Penalties

The law provides that any person who knowingly and willfully embezzles, misapplies, steals, obtains by fraud, false statement, or forgery, or fails to refund any funds, assets, or property provided or insured under Title IV of the Higher Education Amendments, or *attempts* to commit any of these crimes will be fined up to $20,000 or imprisoned for up to 5 years, or both. If the amount of funds involved in the crime is $200 or less, the person will be fined up to $5,000 or imprisoned up to one year, or both.

Any person who knowingly and willfully makes any false statement, furnishes any false information, or conceals any material information in connection with the assignment of an SFA Program loan or attempts to do so, will, upon conviction, be fined up to $10,000 or imprisoned for up to one year, or both.

Any person who knowingly and willfully makes, or attempts to make, an unlawful payment to an eligible lender of loans as an inducement to make, or to acquire by assignment, a loan insured under such part will, upon conviction, be fined up to $10,000 or imprisoned for up to one year, or both.

Any person who knowingly and willfully destroys or conceals, or attempts to destroy or conceal, any record relating to the provision of SFA Program assistance with intent to defraud the United States or to prevent the United States from enforcing any right obtained by subrogation under this part, will, upon conviction, be fined up to $20,000 or imprisoned up to 5 years, or both.

Case Management Teams
Case Management Divisions
Institutional Participation and Oversight Service

The Institutional Participation and Oversight Service contains four Case Management Divisions. These divisions perform similar functions, and each division is responsible for a separate section of the U.S. Each division implements the following case management team functions: audit resolution, program review, financial statement analysis, and recertification. The four divisions are:

- *Case Management Division Northeast*
- *Case Management Division Southeast*
- *Case Management Division Southwest*
- *Case Management Division Northwest*

The division functions are performed by teams headed by an Area Case Director and composed of staff from Washington, D.C. and the region. Each division contains two or more of these teams. Listed below are the teams, their telephone numbers, and the states each team is responsible for.

Team	Telephone #	States Covered
Case Management Division Northeast		
Boston Team	617-223-9338	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
New York Team	212-264-4022	New Jersey, New York, Puerto Rico, and Virgin Islands
Philadelphia Team	215-656-6442	Delaware, Maryland, Pennsylvania, Virginia, W. Virginia, and the District of Columbia
Case Management Division Southeast		
Atlanta Team	404-562-6315	Alabama, Florida, Georgia, Mississippi, North Carolina, and South Carolina
Kansas City Team	816-880-4053	Iowa, Kansas, Kentucky, Missouri, Nebraska and Tennessee
Case Management Division Southwest		
Dallas Team	214-880-3044	Arkansas, Louisiana, New Mexico, Oklahoma, and Texas
San Francisco Team	415-556-4259	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Republic of Palau, Republic of the Marshall Islands, Northern Marianas, and the Federated States of Micronesia
Case Management Division Northwest		
Chicago Team	312-886-8767	Illinois, Minnesota, Ohio, and Wisconsin
Seattle Team	206-287-1770	Alaska, Idaho, Oregon, Washington, and Indiana
Denver Team	303-844-3677	Colorado, Michigan, Montana, North Dakota, South Dakota, Utah, and Wyoming

The Case Management Division Northeast is also responsible for certification and monitoring of foreign schools. For information on foreign schools you should contact 202-708-9257.

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Distance Education

CHAPTER 12

In this chapter, we discuss the applicability of the SFA Program requirements to programs offered through distance education.

For some time now, schools have used various modes of delivering instruction to provide access to students who cannot or find it inconvenient to engage in traditional on-campus study. These modes of delivering include providing courses at off-campus sites or on weekend, correspondence study, and video based on televised instruction.

Distance education is not a new mode of delivery. However, the availability of new technologies and the Internet have spurred significant growth in the number and types of distance education programs schools offer today.

The result is that certain SFA Program requirements, which tend to be organized around the structures of on-campus instruction, restrict or are not easily applied to distance education programs.

The Higher Education Amendments of 1998, Public Law 105-244 (the Amendments of 1998) address this growing problem by authorizing a Distance Education Demonstration Program (Demonstration Program). The Demonstration Program provides the opportunity for schools and the Department to experiment with various ways to assure integrity in the SFA Programs in these new distance education centers.

For currently existing distance education programs that are not part of the Demonstration Program, the guidance on the applicability of current SFA Program requirements, provided in Dear Colleague letter GEN-98-10, is applicable. This guidance is included below.

Distance Education Demonstration Program
Sec. 486

Distance Education
An educational process that is characterized by the separation, in time or place, of the student and instructor and includes courses offered principally through the use of various means including television, audio, or computer transmission, such as open broadcast, closed circuit, cable, microwave, or satellite transmission; audio or computer conferencing; video cassettes or discs; or correspondence.

Amendments of 1998

Amendments of 1998

DISTANCE EDUCATION DEMONSTRATION PROGRAMS

Purpose of the Demonstration Program

The Distance Education Demonstration (DED) Program was created by the Amendments of 1998 to

- test the quality and viability of distance education programs,
- increase student access to higher education through distance education programs,
- help determine
  - Δ the most effective means of delivering quality education through distance education programs,
  - Δ specific statutory and regulatory provisions needing modification to provide greater access to distance education programs, and
  - Δ the appropriate levels of Federal student assistance for students enrolled in distance education programs.

Waivers of SFA Program Requirements

The Department may waive for schools in the demonstration program specific requirements in Parts F and G of the HEA related to computer costs, weeks of instruction, the Correspondence Course Limitation, and the Correspondence Student Limitation, and regulations that inhibit the operation of distance education. (For more information on the Correspondence Course Limitation, and the Correspondence Student Limitation, see Chapter 1).

Eligible Applicants

The Department is authorized to select institutions, systems of institutions, or consortia of institutions to participate in the demonstration program. On February 4, 1999, the Department published in the *Federal Register* a Notice inviting applications for participation in the Demonstration Program. Applications were due by April 1, 1999.

A school was eligible to apply to participate in the Demonstration Program if it:

- Is located in the United States and participates in the SFA Programs;
- Provides a 2-year program that leads to an associate degree or a 4-year program that leads to a baccalaureate degree or higher degree and would be eligible to participate in the SFA Programs but for the fact that they do not meet the Correspondence Course Limitation, and/or the Correspondence Student Limitation; or
- Is Western Governors University.

In addition, systems and consortia of these institutions were eligible to apply to participate in the program.

Applying to Participate

Each applicant institution was required to submit an application to the Department that included

- descriptions of its consultation with its accrediting agency with regard to quality assurances of its distance education program,
- proposed waivers of statutory and regulatory requirements and the reason the waivers are being sought,
- a description of the programs and students to whom the programs will be offered
- an assurance of full cooperation in evaluations of the demonstration program, and
- any other information the Department may require

Selection of Participants

The Department may select up to 15 participants for the first year. The Department may add up to 35 participants for the third year, if the Department believes expansion is warranted based upon the evaluations conducted in accordance with specific criteria in the law (see below).

When selecting participants, the Department must take into account:

- the number and quality of applications received
- the Department's capacity to monitor each school's participation, and
- each school's financial responsibility, administrative capability, and the program(s) being offered through distance education, and
- the diversity of the schools selected with respect to size, mission, and geographic distribution.

Evaluation of the Demonstration Program

The Department must evaluate each demonstration program on an annual basis. This evaluation must address

- the extent to which a participant has met the goals set forth in its application, including the measures of program quality assurance,

- the number and types of student participation, including the progress of students toward certificates or degrees, and the extent to which participation in the programs increased,

- issues related to student financial assistance for distance education,

- effective technologies for delivering distance education course offerings, and

- impediments caused by program requirements not waived.

In addition, the Department must review current policies and identify those that present impediments to the development and use of distance education and to other nontraditional methods of expanding access to higher education.

The Department must report to Congress within 18 months of the demonstration program's initiation with respect to the evaluations of the programs and any proposed statutory changes designed to enhance the use of distance education. In addition, the Department must provide additional annual reports to Congress regarding the demonstration programs.

Oversight

The Department must carry out, on a continuing basis, various oversight activities, including assuring participants' compliance with applicable statutory and regulatory requirements, providing technical assistance, monitoring student participation, and consulting with accrediting agencies and State regulatory authorities.

Notification to the Public and Congress

The Department must make available to the public and the Congress a list of participants, the specific requirements being waived for each participant, and a description of the distance education courses being offered by each participating institution.

"DEAR COLLEAGUE" LETTER GEN-98-10

"Dear Colleague" letter GEN-98-10, published in May 1998, provided information regarding the applicability of the SFA Program requirements to distance education programs. This guidance remains applicable to distance education programs that are offered at schools that do not participate in the Demonstration Program. Although the "Dear Colleague" letter provided information on many areas other than institutional eligibility and participation, all the guidance of the "Dear Colleague" is repeated here so that a school may review it in its entirety.

Definitions

What is a correspondence course?

A correspondence course is a home study course provided by a school to students who are not physically attending classes at the school. The school provides instructional materials, including examinations, to the students. When students complete a portion of the instructional materials, the students take the examinations that relate to that portion of the materials and return the examinations to the school for grading.

A home study course that is delivered in whole or in part through video cassettes or video discs is a correspondence course unless the school also delivers comparable instruction to students physically attending classes at the school during the same award year.

A telecommunications course (see below) is a correspondence course for purposes of SFA Program eligibility, if the sum of telecommunications and other correspondence courses offered by that school equals or exceeds 50 percent of the total courses offered at that school.

If a course is part correspondence and part residential training, the course is considered to be a correspondence course.

What is a telecommunications course?

A telecommunications course is a course offered principally through the use of television, audio, or computer transmission, including open broadcast, closed circuit, cable, microwave, satellite, audio conferencing, computer conferencing, video cassettes or discs.

The term "telecommunications" does not include a course that is delivered using video cassettes or disc recordings unless the school also delivers comparable instruction offered on the cassettes or discs to students physically attending classes at the school during the same award year. If the course offered in the manner described above does not qualify as a telecommunications course, it is a correspondence course.

What is an educational program?

An educational program is a legally authorized postsecondary program of organized instruction or study that leads to an academic, professional, or vocational degree or certificate, or other recognized educational credential. However, a school is not considered to be providing an educational program if the school does not provide instruction itself (including a course of independent study), but merely gives credit for one or more of the following: instruction provided by other schools or schools; examinations provided by agencies or organizations; or other accomplishments such as life experience.

Correspondence Course
Sec. 484(l); 34 CFR 600.2

Telecommunications Course
Sec. 484(l); 34 CFR 600.2

Educational Program
34 CFR 600.2

Institutional Eligibility
Sec. 481(a)(3)(A) and (B); 34 CFR 600.7

Student Eligibility
Sec. 484(k); 34 CFR 668.38 and 690.2

Institutional Eligibility

What is the effect of the offering of correspondence courses on institutional eligibility?

In general, a school does not qualify as eligible to participate in the SFA Programs if, for the latest complete award year,

- more than 50 percent of the school's courses were correspondence courses, or

- 50 percent or more of the school's regular enrolled students were enrolled in correspondence courses.

For purposes of this provision a telecommunications course is considered to be a correspondence course if the sum of telecommunications and correspondence courses the school provided during its latest complete award year equaled or exceeded 50 percent of the total number of courses it provided during that year.

These restrictions do not apply to a school that qualifies as a technical institute or vocational school used exclusively or principally for the provision of vocational education to individuals who have completed or left high school and who are available for study in preparation for entering the labor market under section 521(4)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act;

Calculating the number of correspondence courses.

- A correspondence course may be a complete educational program offered by correspondence, or one course provided by correspondence in an on-campus (residential) educational program;

- A course must be considered as being offered once during an award year regardless of the number of times it is offered during that year; and

- A course that is offered both on campus and by correspondence must be considered two courses for the purpose of determining the total number of courses the school provided during an award year.

Student Eligibility

Are there any limits on a student's eligibility for SFA Program funds for attendance in a correspondence course?

A student is not eligible to receive SFA Program funds for a correspondence course unless the course is part of a program leading to an associate, bachelor's, graduate, or professional degree. This means no student enrolled in certificate programs or other short term programs offered through correspondence is eligible to receive SFA Program funds.

A student enrolled in a telecommunications course is considered enrolled in a correspondence course unless the total number of telecommunication and correspondence courses the school provides is fewer than 50 percent of the courses the school provides during an award year, and the student is enrolled in a program that leads to an associate, bachelor's, graduate, or professional degree. (In making this determination, the school must use its latest complete award year, and must calculate the number of courses as described above.)

In order to be eligible for SFA Program funds, a student enrolled solely in a program of study by correspondence must be carrying a work load of at least 12 hours of work per week, or must be earning at least 6 credit hours per semester, trimester, or quarter. A student enrolled solely in correspondence study cannot be considered more than a half-time student.

Cost of Attendance
Sec. 472(5) and 472

FSEOG Program Disbursements
34 CFR 676.16(f)

Pell Grant Program Disbursements
34 CFR 690.66

Cost of Attendance

What costs can be included in a student's cost of attendance?

For a student engaged in a program of study by correspondence, generally the only costs that can be included in the student's cost of attendance are tuition and fees and, if required, books and supplies. Travel and room and board costs can only be included if they are incurred specifically in fulfilling a required period of residential training.

Generally, a student who is studying via telecommunications does not have any restrictions placed on his or her cost of attendance unless the financial aid officer determines (using his or her professional judgement) that telecommunications instruction results in a substantially reduced cost of attendance.

The cost of equipment can be included in the cost of attendance of a student studying by correspondence or telecommunications if such equipment is required of all students in the same program.

Federal Pell Grant Program and Federal Supplemental Educational Opportunity Grant (FSEOG) Program Disbursements

Are there any special disbursement rules that apply to students in correspondence courses?

Generally, Federal Pell Grant Program and FSEOG Program disbursements can be made up to 10 days before the first day of classes for a payment period. However, there are special rules for students enrolled in correspondence study programs.

FSEOG Program

A correspondence student must submit his or her first completed lesson before receiving an FSEOG payment.

Pell Grant Program

For a non-term-based correspondence portion of a program of study the school must make—

- the first payment to a student for an academic year after the student submits 25 percent of the lessons, or otherwise completes 25 percent of the work scheduled for the program or the academic year, whichever occurs last; and

- the second payment after the student submits 75 percent of the lessons, or otherwise completes 75 percent of the work scheduled for the program or the academic year, whichever occurs last.

For a term-based correspondence portion of a program of study the school must make the payment to a student for a payment period after the student completes 50% of the lessons, or otherwise completes 50% of the work scheduled for the term, whichever occurs last.

Miscellaneous Questions and Answers

1. Q. How can you determine if a course is a telecommunications course or a correspondence course when the course is delivered using a video cassette or disc recording?

A. The course would be considered a telecommunications course if the school also delivers instruction, comparable to that offered on the cassette or disc, to students physically attending classes at the school during the same award year.

If the course offered on the cassette or disc is not offered to students physically attending classes at the school during the same award year, it is considered a correspondence course.

2. Q. Is a student enrolled in a correspondence or telecommunications course eligible to receive SFA Program funds for that course?

A. *For correspondence students*

If the student is enrolled in a program leading to an associate, bachelor's, or graduate or professional degree, the student is eligible to receive SFA Program funds. If the student is enrolled in a postsecondary vocational program leading to a certificate, diploma, or similar type of credential, the student is not eligible to receive SFA Program funds.

For telecommunications students

There is no special limit on the eligibility of telecommunication students to receive SFA Program funds as long as the telecommunication course is considered a telecommunication course and not a correspondence course. However, if the telecommunications course is considered a correspondence course (because the total of telecommunication and correspondence courses equals or exceeds 50 percent of the school's courses) the above correspondence limitation applies.

3. Q. May a school choose not to award SFA Program assistance to otherwise eligible students who are enrolled in distance education courses or programs?

A. No, a school may not make a blanket determination that it will refuse to provide SFA Program assistance to students enrolled in distance education programs or courses. However, a school may refuse to certify an FFEL application or originate a Direct Loan (or may reduce the amount of the FFEL or Direct Loan) for a student if the decision is made on a case-by-case basis, and the reason (not merely because the student is a distance education student) is provided to the student in writing and documented in the student's file.

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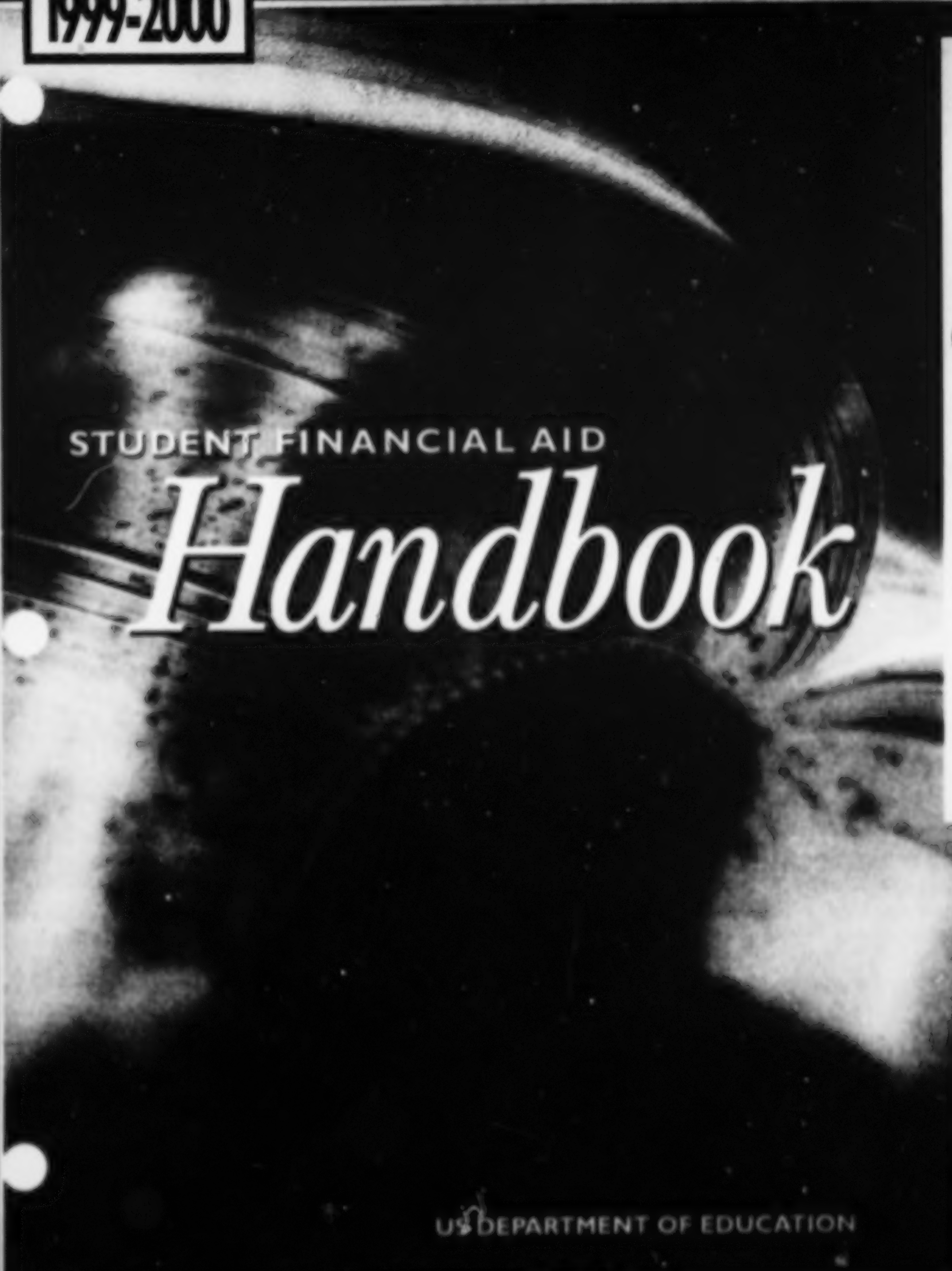

STUDENT FINANCIAL AID

Handbook

State Grant Programs Reference

US DEPARTMENT OF EDUCATION

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Introduction

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The three programs covered in this Reference are administered at the state level. Students must meet state eligibility criteria to receive assistance or benefits from these programs.

THE STATE GRANT PROGRAMS

The three state grant programs are:

- Leveraging Educational Assistance Partnership (LEAP) Program (formerly known as the State Student Incentive Grant [SSIG] Program)
- Robert C. Byrd Honors Scholarship (Byrd Scholarship) Program
- Paul Douglas Teacher Scholarship (Douglas Scholarship) Program

The Higher Education Amendments of 1998 renamed the SSIG Program the LEAP Program. The LEAP Program, covered in Chapter 1, provides grants to states to help those states provide need based grant and work-study assistance to eligible postsecondary students. When program funding does not exceed $30 million, which is the case for 1999-2000, states must use their LEAP funds in the same way they used their SSIG funds in previous years.

Under the Byrd Scholarship Program, covered in Chapter 2, the Secretary makes grants to states to enable those states to award scholarships to high school seniors who have demonstrated outstanding academic achievement and who show promise of continued academic achievement. (Scholarship recipients are called Byrd Scholars.)

Chapter 3 covers the Douglas Scholarship Program. Congress has not authorized funding for new scholarships since the beginning of the 1996-97 year. However, each former scholarship recipient must continue to fulfill the scholarship agreement he or she made upon receipt of the scholarship. Chapter 3 contains the details of this agreement.

LEAP Program Cites

Title IV, Part A, Subpart 4 of the Higher Education Act of 1965, as amended. Program regulations are found under 34 CFR 692.

Byrd Program Cites

Title IV, Part A, Subpart 6 of the Higher Education Act of 1965, as amended. Program regulations are found under 34 CFR 654.

Douglas Program Cites

Title V, Part C, Subpart 1 of the Higher Education Act, as amended. Program regulations are found under 34 CFR 653 and 682.

GEAR UP Cite

GEAR UP is authorized under Section 403 of the Higher Education Amendments of 1998 (P.L. 105-244).

SLEAP Cite

SLEAP is authorized under Section 407(c) of the Higher Education Amendments of 1998 (P.L. 105-244)

NEW PROGRAMS

The Higher Education Amendments of 1998 created two programs: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) and Special Leveraging Educational Assistance Partnership (SLEAP).

GEAR UP replaces the National Early Intervention Scholarship and Partnership (NEISP) Program. GEAR UP comprises two component programs that provide competitive grants aimed at improving early college preparation for lower-income students. The State grant component provides funding directly to states, and the Partnership grant component provides funding to partnerships of colleges, local schools, and at least two community organizations or entities. Such organizations are businesses, philanthropic organizations, state agencies, or other community based organizations. You can obtain more information on GEAR UP by contacting its web site at

http://www.ed.gov/gearup

The SLEAP Program will be run as an additional component to LEAP (described on the previous page) when funding levels for LEAP exceed $30 million per year. Since LEAP funding for 1999-2000 is below $30 million, there is not sufficient funding to run the SLEAP component for 1999-2000. More information on SLEAP as it becomes available will be posted on the financial aid professionals web site at

http://ifap.ed.gov

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Leveraging Educational Assistance Partnership (LEAP) Program

CHAPTER 1

The LEAP Program helps states provide grants to students who demonstrate substantial financial need, enabling those student to attend postsecondary school.

PROVIDING FUNDS TO STATES

Under the LEAP Program, the Secretary of Education (the Secretary) provides states with funds to establish a state grant program assisting students who demonstrate substantial financial need. States must, at a minimum, match LEAP grants dollar for dollar with state funds provided through direct state appropriations. These state programs carry a variety of names that do not necessarily include the name "LEAP" in program titles. The LEAP Program provides funds to the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, American Samoa, Guam, and the Northern Mariana Islands.

School and Student Inquiries

Because state programs vary, student and school inquiries about LEAP and other state grant, scholarship, and work-study assistance should be directed to the state higher education agency that administers the program in their state. You can find this list electronically by going to the following web site:

http://search.ed.gov

At that site, key in "state higher education agencies."

To help financial aid administrators understand the variety of state practices, this section describes some of the conditions and regulations that affect state program operations.

MATCHING REQUIREMENTS

Each eligible participating state receives an annual LEAP allotment (formula grant) from the Department based on the state's eligible postsecondary education enrollment. The federal allotments must be matched by funds appropriated by the state, and this matching must represent an increase in the state-appropriated grant and work-study expenditure over the amount spent during an established base year (defined as the second year before the state began participating in the

LEAP Program). The state must maintain its matching LEAP Program expenditures at a level not less than the average for the preceding three fiscal years, or at the level of the average per full-time equivalent student for those years. LEAP Program expenditures used in matching the federal allotment must be the net amount of expenditures and should not include any refunded or returned amounts that were not actually expended.

Matching in Auditable Dollar Amounts

Matching must be in auditable dollar amounts. Tuition waivers or remissions may be considered grants only if money actually changes hands from state to school to student, and if this transfer can be documented as a cash transaction in the appropriate records at each level.

COMMUNITY SERVICE-LEARNING JOB PROGRAM

Each award year, a state may use up to 20% of its allotment for a community service-learning job program. The student must receive compensation for work, not a grant. The job program must be administered by postsecondary schools in the state, and each student employed under the program must be employed in work for the public interest. The employer may be a school; a federal, state, or local public agency; or a private nonprofit organization. An arrangement must be established between the school and the agency or organization.

Schools, in consultation with local nonprofit, governmental, and community-based organizations, identify jobs (in direct service, planning, or applied research) that are designed to improve the quality of life for residents (particularly low-income residents) of the community served. Each community service-learning job must

- provide the participating student with a job related to his or her educational or vocational program or goals;
- be governed by conditions of employment that are considered appropriate and reasonable, based on such factors as type of work performed, geographic region, and proficiency of the employee;
- pay at least the current federal minimum wage as mandated by the Fair Labor Standards Act of 1938 (but may not use the subminimum wage);
- not displace employed workers or impair existing contracts for service; and
- not involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction.

Funding Reallotment

Basic LEAP allotments not used by one state are reallotted to other qualified states. Within the constraints of federal appropriations, states are free to schedule their own funding cycles for students, but funds may not be carried over from one fiscal year to the next. However, the funds may be used for the summer term if the term falls within the program year (July 1 through June 30) for which the funds were appropriated.

ADMINISTRATIVE PATTERNS

A state may choose different ways to administer its program. The state may choose to use centralized administration, decentralized administration, or a combination of both. Whichever method is used, a state must use all federal funds and state matching funds for student awards. (A state is not permitted to use either federal funds or state matching funds to help defray administrative costs.)

Centralized Administration

Most states, particularly those with well-established state student assistance programs, use centralized administration. In centralized administration, a single state agency receives and processes student applications, notifies students of awards, verifies attendance, makes disbursements, and keeps complete records on all student awards.

Decentralized Administration

In other states, particularly those with relatively new state programs, the designated state agency delegates certain functions to participating schools. This is called decentralized administration. In these cases, funds available through the state agency are generally suballocated to eligible schools on the basis of enrollment or need formulas. The schools recommend potential LEAP recipients to the state agency, which approves individual awards from these fund allotments. In states that use decentralized administration, funds awarded under these programs are still considered to be state aid and not institutional aid.

Location of Student Files

In the centrally administered state programs, actual student files are located in the state agency. In decentralized state administration, which requires schools to process much of the student information, the financial aid administrator gives the state agency the information needed for formal approval of individual student awards. In either case, to monitor the use of LEAP funds, schools examine student files to verify that recipients met all eligibility criteria and received the correct award amount.

SCHOOL PARTICIPATION

Within the limits of federal statutes and regulations, states determine eligibility standards in terms of their own fiscal, constitutional, and statutory restraints. See *SFA Handbook: Institutional Eligibility and Participation* for details about federal limits on school participation.

Relevant Eligibility Requirements Cite
Subpart C of the General Provisions regulations (34 CFR 668.31-39)

Schools that are licensed by their state agency as clock-hour institutions must use clock hours to determine a student's eligibility for SFA funds. (See *SFA Handbook: Institutional Eligibility and Participation.*)

All nonprofit institutions of higher education in a state are eligible to participate, except when participation violates the state's constitution or a state law enacted before October 1, 1978. While states are not required to include proprietary (for-profit) schools in their state programs, most recent LEAP (formerly SSIG) participation figures show that 26 states made LEAP awards available to students attending such schools.

Other Factors Affecting Participation

School participation may also be affected when some states suballocate available LEAP funds to the various types of schools on the basis of enrollment, need, the availability of other non-LEAP aid, and other relevant criteria. In such instances, money not claimed for student awards at one school may be reclaimed by the state and reassigned to other schools.

STUDENT ELIGIBILITY

Student eligibility criteria for receiving aid from the LEAP Program differ among states depending on constitutional, statutory, or policy restrictions. (Some states have legislated formulas for determining student eligibility and the amount of assistance given to individual students.) However, to be eligible for assistance under the LEAP Program, all students must meet the relevant eligibility requirements and must demonstrate substantial financial need as determined in accordance with the states' criteria as approved by the Secretary. The standards that states may use to determine need are discussed in more detail in the subsection on Student Application Procedures and Awards beginning on page 8 of this chapter.

General Eligibility Requirements

The relevant eligibility requirements of Subpart C are summarized briefly below. These requirements are covered in greater detail in *SFA Handbook: Student Eligibility*. In general, the student must

- be either a U.S. citizen or an eligible noncitizen,
- be enrolled as a regular student in an eligible program at an eligible school,
- have a high school diploma or its recognized equivalent (or be beyond the age of compulsory school attendance in the state where the school is located and have passed an independently administered test approved by the Department),
- be maintaining the satisfactory academic progress standards in his or her course of study,

- sign a Statement of Educational Purpose and a Certification Statement on Overpayments and Default, and
- register with the Selective Service, if required.

A student is not eligible for SFA funds if he or she

- is enrolled in an elementary or secondary school;
- has borrowed in excess of the annual or aggregate limits for the SFA loan programs; or
- is in default on a student loan or owes an overpayment on a student grant from the SFA Programs.

If, however, a student owes a refund on a LEAP overpayment, that student would still be eligible to receive additional SFA funds as long as he or she meets all other eligibility requirements and as long as the school can eliminate the overpayment by adjusting financial aid payments (other than Federal Pell Grants) in the same award period in which the overpayment occurred.

Other Factors Determining a Student's Eligibility

Other factors that determine whether a student is eligible for a LEAP award include the state's definition of substantial financial need, the method of determining maximum awards, and the costs that can be covered. Some states limit awards to cover only the cost for tuition and fees; some states include allowances for room, board, and other costs. Some have allowances for commuters. Many state grant programs exclude part-time students and those who attend schools outside the state. Some states have reciprocal arrangements with neighboring states, so that students may receive LEAP funds from their home states even though the students are enrolled in schools in other states. LEAP funds may be awarded to students participating in programs of study abroad that are approved for credit by the home school.

Independent or Less-Than-Full-Time Students

A state's LEAP independent student program funding should be comparable to the overall state program if the entire state program is not contained in the state's LEAP Program. To the extent practicable, the proportion of LEAP funds awarded to independent students in the LEAP Program must be the same proportion of funds awarded to independent students in the state program (or programs) of which the state's LEAP Program is a part.

If a state awards grants to independent or less-than-full-time students, it must allocate a reasonable portion of funds for these awards. The Secretary will determine if the allocation is reasonable on a case-by-case basis, if necessary.

If the state's allocation is based on a formula that includes the financial need of independent or less-than-full-time students, the state must ensure that those students receive a reasonable proportion of LEAP funds.

STUDENT APPLICATION PROCEDURES AND AWARDS

The student must apply to his or her state agency either directly or indirectly through the school. Every award requires the official state agency's formal approval, based on a determination of need. You can find a list of these agencies at the web site listed on page 3 of this chapter.

Maximum Award

The maximum award that a student may receive is $5,000 per academic year. The maximum award is reduced proportionately for students who attend part time. Many states set maximum awards under $5,000.

Most states limit LEAP awards to undergraduates attending at least halftime. However, at each state's option, graduate, less-than-half-time, and other nontraditional students may also be eligible to receive LEAP awards. States may decide whether to make individual LEAP awards that vary according to student need or to give a set amount to all students who meet the established need criteria.

Determining Substantial Need

Student recipients are selected annually on the basis of substantial need, according to criteria established by the state and approved by the Department. A state may define need in terms of income, Expected Family Contribution (EFC), or relative need, as measured by cost of attendance minus available resources. Regardless of which need analysis system the state selects, the designated state agency is responsible for final approval of individual student recipients, thus allowing each state to develop consistent methods in awarding aid to candidates statewide.

Need Analysis Systems

Most states measure need by using a single need analysis system for all applicants (the Federal Needs Analysis Methodology). However, in decentralized programs—where schools recommend student candidates for awards subject to the designated state agency's approval—student applications may be processed according to the need analysis systems used by the various schools. In any event, the designated state agency has final authority for selecting recipients who meet the need criteria under standards established for the statewide program.

Dependency Criteria

As discussed in *SFA Handbook: Student Eligibility*, a dependent student who applies for aid from any of the SFA Programs must include parental information on the application. An independent student need only include his or her financial information (and, if married, that of a spouse). The criteria a student must meet to apply as an independent student appear in *SFA Handbook: Student Eligibility*.

The Department may approve, on a case-by-case basis, a state's criteria if they vary from those listed in *FSFA Handbook: Student Eligibility*. The state must show that it had good reason to use different criteria. This option to approve different criteria began in the 1995-96 award year.

Alternative Criteria for Determining Dependency Status

States that wish to use variant definitions for "independent student" must provide information concerning their definition when applying for program funds. The information should include a justification, with accompanying supporting documentation, showing why a variant definition should be approved. For example, a state may want to use its own definition because the state may incur excessive costs if required to use the federal definition.

In approving a state's "independent student" definition, the Department might also consider the extent to which the new definition imposes additional data requirements beyond those provided for by the federal definition and the Federal Needs Analysis Methodology.

A state's definition might not totally differ from the federal definition. For example, a state might use the federal definition but might delete the professional judgment provision.

Cost of Applying

To award a student state aid, a state may require that student to provide applicant information on the Free Application for Federal Student Aid (FAFSA) or on another free form. In addition, the state may require a student to provide supplemental information on a fee-based supplemental form. If there is a fee for submitting and processing the state information on the supplemental form, the fee must be payable to the state, regardless of whether the information may also be used for institutional aid. Decentralized state grant programs (under which schools participating in the state LEAP programs award state grant funds) must consider state grant funds as state aid and not institutional aid.

FISCAL AND REPORTING RELATIONSHIPS BETWEEN SCHOOLS AND THE STATE AGENCY

State agencies responsible for administering LEAP funds must document their decisions and disbursements in their own central records, in school records, or in both. Variations of student/school rosters are often sent back and forth between the state agency and the schools to verify attendance, provide information related to student need, document disbursement of funds to students or to student accounts, guard against overawards, and help provide required records and reports.

In general, fiscal and reporting relationships between participating schools and the state agencies vary according to whether the states' programs are administered in a centralized or decentralized manner, or in a combined manner. In any case, the state agency must be held accountable for the disbursement of federal funds and for making the required reports to the Department. States are given considerable leeway in demonstrating fiscal responsibility related to administration of the LEAP Program. However, participating schools must meet the federal standards of fiscal responsibility described in SFA *Handbook: Institutional Eligibility and Participation.*

At a minimum, even schools using the most centralized administrations must

- assure that students will meet satisfactory academic standards,
- document the status of grant refunds, and
- document the status of loan defaults.

A school must also document student acknowledgment of awards if funds are paid to the school on behalf of the recipient; furthermore, the school must cooperate in packaging aid to avoid overawards.

In decentralized systems (in which the state agency depends on the school to help screen applicants) school records must also include need analysis documentation to justify formal approval of individual awards by the official state agency.

Individual student awards are subject to approval by the designated state agency. Schools may not transfer awards from one student to another without that agency's approval. Schools and state agencies should maintain regular communication so that any funds that become available later in the year will be used for qualified students.

The state agency requires certain school reports to document the disbursement of federal funds to student recipients. The school reports also provide information needed to improve efficiency in the operation of state programs and to provide data for state budgets and for annual reports to the Department.

Recovered Funds Must be Redistributed

All funds (federal plus state) recovered from overawards should be redistributed to other qualified students during the applicable award period unless records for the period have been closed. If these funds are not reissued to qualified students, the state must return the recovered federal portion to the Department.

School Reports Must Document Fund Disbursement

The actual form and content of school reports vary from state to state, depending upon the size and maturity of the state programs, among other factors. There are no standard formats or channels for these school reports. For example, information about recipients by income level may come either from the central office records or from the schools. Communication may follow established procedures or may be developed through cooperative efforts of state and school representatives.

Robert C. Byrd Honors Scholarship Program

CHAPTER 2

Under this program, the Secretary of Education (the Secretary) makes available, through grants to the states, scholarships to exceptionally able students for study at postsecondary schools in order to recognize and promote student excellence and achievement.

APPLYING FOR A SCHOLARSHIP

To apply for a scholarship, a student follows the application procedures established by the State Educational Agency (SEA) in the state in which he or she is a legal resident. A "state" is any of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, Virgin Islands, Northern Mariana Islands, and the Freely Associated States (Federated States of Micronesia, Republic of the Marshall Islands, and the Republic of Palau). The SEA is the state board of education (or other agency in the state) that is primarily responsible for the supervision of public elementary and secondary schools. You can find a list of contacts for these agencies (in PDF format) at the following web site:

http://www.ed.gov/offices/OPE/OHEP/idues/byrd.html

A scholar may attend any public or private nonprofit institution of higher education, proprietary institution of higher education, or postsecondary vocational institution as defined in *FSA Handbook: Institutional Eligibility and Participation*. A student who is attending a secondary school outside of his or her state of residency must apply for a Byrd Scholarship through the SEA of his or her state of residency. This would include a student who was attending a U.S. Department of Defense overseas school or an out-of-state boarding school.

STATE ESTABLISHES SCHOLARSHIP SELECTION CRITERIA

The SEA establishes procedures for selecting the scholars after consulting with school administrators, school boards, teachers, counselors, and parents. Before each state's selection criteria and application procedures are implemented, they are reviewed and approved by the Department.

Selection Criteria Designed to Meet State Funding Allotments

Each SEA designs its own selection criteria and procedures to ensure that it selects scholars for each award period for which funds are received according to the following allotments:

- Each state selects no fewer than the number of scholars allotted to that state by the Secretary under the statutory formula.

- The District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, Virgin Islands, the Northern Mariana Islands, and the Freely Associated States (the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau) select no fewer than 10 scholarships from each of these jurisdiction's residents.

- All participating states select enough scholars to award all funds allotted for scholarships for each award period.

In addition, the SEA selects scholars

- solely on the basis of demonstrated outstanding academic achievement and promise of continued achievement;

- in such a way that each part of the state, the District of Columbia, and Puerto Rico is represented fairly; and

- regardless of

    - Δ whether the secondary schools they attend are within or outside the scholars' states of legal residence;

    - Δ whether the postsecondary schools they plan to attend are public or private or are within or outside their states of legal residence;

    - Δ the scholars' sex, race, color, national origin, religion, disability, or economic background; and

    - Δ the scholars' education expenses or financial need, except that the total amount of financial aid awarded to a scholar for a year of study may not exceed the scholar's total cost of attendance.

ELIGIBILITY TO RECEIVE SCHOLARSHIP

To receive a Byrd Scholarship, each student must meet the criteria listed below during the same secondary academic year in which the student submits the scholarship application. The student must

- graduate from a public or private secondary school or receive the recognized equivalent of a high school diploma as recognized by the state in which the student resides, and

- have applied or been accepted for enrollment at an institution of higher education as a full-time student.

Note that the "recognized equivalent of a high school diploma" means

- a General Education Development (GED) Certificate, or
- a state certificate received by a student after the student has passed a state-authorized examination that the state recognizes as the equivalent of a high school diploma.

A full-time student is one who is enrolled at an institution of higher education and who is carrying a full-time academic workload as determined by the school under standards applicable to all students enrolled in the same program.

In addition to the two eligibility requirements listed above, a student is eligible to be selected as a scholar if he or she

- is a legal resident of the state to which he or she is applying for a scholarship;
- is a U.S. citizen or national, or provides evidence from the U.S. Immigration and Naturalization Service (INS) that he or she is
  - Δ a permanent resident of the United States; or
  - Δ in the United States for other than a temporary purpose and has the intention of becoming a citizen or permanent resident;
- is a citizen of the Freely Associated States (Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau);
- is not ineligible to receive assistance as a result of default on a federal student loan or other obligation, in accordance with the Education Department General Administrative Regulations (34 CFR 75.60);
- is registered with the Selective Service if required in accordance with the Student Assistance General Provisions regulations (34 CFR 668); and
- is planning to pursue a course of study at an institution of higher education.

A scholar is deemed to be "pursuing a course of study" if he or she is enrolled as a full-time student, as determined by the school he or she is attending under standards applicable to all students enrolled in the same course of study.

Full-time Attendance Waiver Example

Wendy F. enrolls full time for the fall semester and enrolls half time for the spring semester. During the spring semester, Wendy's full-time enrollment requirement has been waived. Wendy would then be eligible for half of her full scholarhip for the fall ($1,500 x 1/2 = $750). Because Wendy will be attending half time in the spring and her full-time attendance requirement has been waived, she will be eligible to receive half of the remaining $750 ($750 x 1/2 =$375).

Initial Scholarship Awards

Students can receive up to $1,500 for one year of study. A year of study under current Byrd regulations means the period of time during which a full-time student at an institution of higher education is expected to complete the equivalent of one year of coursework (as defined by the school).

CONTINUING ELIGIBILITY CRITERIA

Awards can be renewed for up to three additional years, provided that funds are appropriated and students remain eligible. A scholar continues to be eligible for scholarship funds as long as he or she continues to

- meet the citizenship/permanent resident requirements listed on the previous page,

- be enrolled as a full-time student at an institution of higher education, and

- maintain the satisfactory academic progress standards of the school in accordance with the Student Assistance General Provisions (34 CFR 668).

Byrd Scholarships are awarded for a period of not more than four years for the first four years of study. If the Byrd Scholar completes his or her undergraduate course of study in three years, that scholar is eligible to receive scholarship funds for only those three years of undergraduate study.

Part-Time Enrollment Allowed After First Year

Byrd Scholars must be enrolled full time for the first year of study. If, after the first year of study, the SEA determines that unusual circumstances justify waiving the full-time attendance requirement, the scholar may enroll part time and continue to receive a scholarship payment.

The SEA must prorate any payment for a scholar enrolled part time according to the scholar's enrollment status for the academic period during which he or she

- continues to be enrolled part time, and

- remains otherwise eligible for the award.

Scholarship Suspension

A scholar who fails to meet any of the eligibility requirements within an award year will have his or her scholarship suspended by the SEA. The scholar's eligibility remains suspended until the scholar is able to demonstrate to the satisfaction of the SEA that he or she meets these requirements. Once the suspension period reaches 12 months, the scholar's eligibility for that scholarship is terminated.

In exceptional circumstances (defined by the SEA) the scholar's 12-month suspension period may be extended without terminating the scholar's eligibility.

Scholars May Postpone Or Interrupt Enrollment

A state agency may permit a scholar to postpone or interrupt his or her enrollment at a postsecondary school for up to 12 months, beginning on

- the date the scholar otherwise would have enrolled in the school after the state agency awarded him or her the scholarship or

- the date the scholar interrupts enrollment.

Each state agency establishes standards to determine when it will approve a period of postponement or interruption for a scholar. If the state does approve the postponement or interruption, it must document the scholar's subsequent enrollment.

A scholar who postpones or interrupts his or her enrollment is not eligible to receive scholarship funds during the period of postponement or interruption. Upon enrollment or re-enrollment at an institution of higher education, the scholar resumes eligibility to receive scholarship payments. Note that these periods of postponement or interruption are not considered in calculating the scholar's period of suspension. Thus, any period of postponement or interruption will not be counted against the scholar in calculating the 12 months of suspension.

Scholar May Not Use Funds to Attend a Foreign School

Note that a Byrd Scholar may not use his or her scholarship to attend a foreign school. The scholar must attend an eligible postsecondary education institution that is located in one of the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, the Northern Mariana Islands, American Samoa, and the Freely Associated States (the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau).

However, a scholar who is studying abroad through an institution (home school) that meets the definition of higher education and is located in a state (as described in the previous paragraph) is considered to be eligible to receive funds as long as he or she is

- enrolled at the home school, and

- receives credit from the home school.

ALLOCATION FORMULA

The Secretary uses the formula illustrated below to assign Byrd Scholarships to each participating state:

FORMULA

$$\frac{\text{Number of scholarships made to the individual state}}{\text{Number of scholarships made to all states}} = \frac{\text{That individual state's ages 5-17 population}}{\text{All states' ages 5-17 population}}$$

The population figures used in this formula are determined from the most recently available data from the Bureau of the Census.

PACKAGING OF BYRD SCHOLARSHIP WITH OTHER SFA FUNDS

Under Byrd regulations that took effect in September 1993, the SEA must ensure that the total amount of federal financial aid awarded to the Byrd Scholar does not exceed the scholar's total cost of attendance. If any federal loans are part of the scholar's financial aid package, they must be reduced prior to reducing the Byrd Scholarship. If the scholar is receiving a Pell Grant, though, the Byrd Scholarship must be reduced prior to reducing the Pell Grant. Section 419 J of the Higher Education Act, as amended, states that a Federal Pell Grant must not be reduced on the basis of the receipt of a Byrd Scholarship.

CHAPTER 3

Paul Douglas Teacher Scholarship Program

Students who have received scholarships under this program enter into a teaching agreement with their state agency. If that agreement is not fulfilled, the student must repay the scholarship.

PROGRAM NO LONGER AWARDS NEW SCHOLARSHIPS

As stated in the introduction of this reference, funding for new scholarships under the Paul Douglas Teacher Scholarship Program has not been authorized since the beginning of the 1996-97 award year. However, students who received scholarships through the 1995-96 award year must continue to fulfill the scholarship agreement they entered into with their state agencies (to teach upon completion of their degree program).

SCHOLARSHIP TEACHING AGREEMENT

This chapter covers the scholarship teaching agreement in detail (for example, how many years the scholarship recipient must teach depending on the number of scholarships received) and explains the repayment procedures that apply if the agreement is not fulfilled. Any individual who received a scholarship entered into an agreement with his or her state agency stating that upon completing his or her degree program, he or she will teach

- full time in any state at the public or private nonprofit preschool, elementary, or secondary level in a school; or
- full time in a private nonprofit institution, children with disabilities or with limited English proficiency.

Determining Full-Time Teaching Status

In determining that a scholar has taught full time, the chief state school officer (CSSO),[1] school principal, or a designee of these officials should consider the following:

- Any activities required to support classroom teaching, such as testing and evaluation of students, a reasonable allowance for "prep time," or other required activities may be considered in addition to classroom hours.

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[1] The CSSO is the highest ranking educational official for elementary and secondary education in the state.

- Full-time substitute teaching may be credited toward the teaching obligation, provided that the scholar teaches a minimum of one term each school year. Credit for one term or more of teaching will be prorated if it is less than a full school year.

- Scholars who are technically classified as part time but whose teaching schedule is the equivalent to the typical full-time teacher may receive credit as having taught full time.

- If a scholar teaches less than a full school year, then teaching during summer school may be credited toward the teaching obligation. Other conditions contained in this section apply to teaching summer school.

- A teaching contract is not required in the employment situations listed previously in order to receive credit toward the teaching obligation.

- Scholars who are still teaching may receive credit previously denied for prior years under the liberalized conditions of this section. The state is encouraged to advise scholars of these changes so that the scholar may request review of teaching credit by the state or request a revised teaching certification form (or forms) for reevaluation by the school principal or CSSO's office.

Activities not acceptable as credit toward the teaching obligation include

- serving as a teacher's assistant or teacher's aide,

- serving a teaching internship (student teaching), and

- teaching overseas (including in U.S. Department of Defense Dependent schools).

Furthermore, volunteer activities may not be credited in classifying the scholar as teaching full time.

REDUCED TEACHING REQUIREMENT

The requirement to teach two years for each year of scholarship assistance is reduced by half if the scholar teaches on a full-time basis in a teacher shortage area that is designated as such by the Secretary of Education (the Secretary). States may propose for the Secretary's consideration teacher shortage areas at the preschool, elementary, and secondary school levels.

Also, if a scholar teaches full time and also teaches at least one class per day in a teacher shortage area, the scholar may receive the reduction of teaching obligation allowed for teaching in a shortage area. (This liberalization does not apply to Stafford or SLS loan deferments.)

ESTABLISHING A TEACHER SHORTAGE AREA

Both the Douglas Program regulations and the FFEL Program regulations cover what a teacher shortage area is. Douglas Scholars teaching in a shortage area may obtain certification in one of two ways:

Teacher Shortage Area Cites

A teacher shortage area is described in 34 CFR 653.51 of the Douglas Program regulations. The term "teacher shortage area" is defined in 34 CFR 682.210(q)(5) through (7) of the Federal Family Education Loan Program (FFELP) regulations.

- If the CSSO in the state where the scholar is teaching has previously notified the Secretary that a listing of teacher shortage areas will be provided to the school principal, then the school principal can certify that the scholar is
  - Δ teaching full time and
  - Δ teaching in a federally approved teacher shortage area.
- If the CSSO in the state where the scholar is teaching did not delegate certification authority to the school principals, then the CSSO's office will provide the certification.

The FFEL regulations also describe other procedures necessary to establish teacher shortage areas. The teacher shortage areas are designated on an annual basis. However, a scholar who teaches in an area designated as a teacher shortage area in one year will continue to qualify for the teaching reduction even if that area is not designated as a teacher shortage area in subsequent years. In this case, the scholar must provide the state agency with a statement from the principal of the school in which he or she is teaching. This statement must certify that he or she continues to be employed as a full-time teacher in the same area in which he or she was teaching when the teaching obligation was originally reduced.

When establishing a teacher shortage area, the Secretary must give special consideration to

- areas in which emergency teacher certifications are being used to correct teacher shortages, and
- states that have retirement laws permitting early retirement.

REPAYMENT OF SCHOLARSHIP IF STATE AGENCY/ SCHOLAR AGREEMENT IS NOT FULFILLED

If the state finds that a Douglas Scholar has not complied with the scholarship agreement or is no longer pursuing a course of study leading to certification as a teacher at the public or private nonprofit preschool, elementary, or secondary level, the scholar must repay the amount of the scholarship received. The repayment is prorated according to the fraction of the teaching obligation not completed (as determined by the state agency).

Repayment Includes Interest

A Scholar who goes into repayment is responsible for paying a simple, annual interest charge on the outstanding principal, and all reasonable collection costs as determined by the state agency. The state agency capitalizes (adds to the principal balance) any accrued interest at the time it establishes the scholar's repayment schedule. By statute, the interest rate charged must be the greater of the rate charged to new borrowers under the Stafford Loan Program or the rate charged to new borrowers under the PLUS Program. At the time this handbook went to print the rate was 8.26 percent. Rates are adjusted annually on July 1. For 1999-2000, the rate will be adjusted on July 1, 1999.

Simple interest accrues from the date of the initial scholarship payment if the state agency has determined that the scholar

- is no longer pursuing a course of study leading to certification as a teacher at the preschool, elementary, or secondary level, or
- has completed a course of study leading to certification as a teacher at the preschool, elementary, or secondary level, but never taught.

If the scholar only fulfilled part of the teaching obligation for a scholarship period,[2] interest will accrue from the day *after* the last day of that period for which the teaching obligation was fulfilled.

Repayment Procedures and Repayment Exceptions

The scholarship must be repaid in monthly or quarterly payments that cover principal, interest, and collection costs, according to a schedule established by the state. The minimum yearly repayment is $1,200 or the unpaid balance (whichever is less). The scholarship must be completely repaid within 10 years after the scholar enters repayment status, and the state may require the scholar to repay more than the minimum yearly repayment if needed to complete the entire repayment within the 10 year period.

The state agency does not consider the scholar to be in violation of the repayment schedule if he or she meets one of the exceptions to repayment listed beginning at the bottom of this page. To qualify for an exception, the scholar must notify the state agency of his or her claim and provide supporting documentation as required by the state agency. If the scholar qualifies under any of the exceptions, he or she will not be required to make any payments–*nor will interest accrue*–on the outstanding balance. The state agency will notify the scholar about its decision.

To qualify for an exception the scholar must be

- engaged in a full-time course of study at a postsecondary institution;
- serving up to a maximum of three years as an active duty member of the armed forces of the United States;

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[2] The scholarship period is the original postsecondary academic year for which the scholarship was awarded.

- temporarily totally disabled for a period not to exceed three years (as established by sworn affidavit of a qualified physician);

- seeking but unable to find full-time employment for a single period not to exceed 12 months;

- unable to secure employment for a period not to exceed 12 months while caring for a disabled child, spouse, or parent, or

- unable to satisfy the terms of the repayment schedule while seeking but unable to find full-time employment as a teacher in a public or private nonprofit preschool, elementary, or secondary school for a single period not to exceed 27 months.

The state agency shall extend the 10-year scholarship repayment period by a period equal to the length of time a scholar

- meets any of the "exceptions to repayment" conditions previously listed, or

- is unable to complete the scholarship repayments withinthis ten year period because of his or her financial condition (as established to the state's satisfaction).

A scholar may potentially qualify for more than one of the above repayment exceptions, provided that the exception is adequately documented as determined by the state agency. Scholars residing overseas may apply for any of the exceptions listed, but the scholar must provide documentation deemed acceptable by the state.

Canceling the Borrower's Repayment Obligation

The state agency shall cancel a scholar's repayment obligation if the state determines

- on the basis of a sworn affidavit by a qualified physician, that the scholar is unable to teach on a full-time basis because he or she is totally and permanently disabled; or

- on the basis of a death certificate or other evidence, conclusive under state law, that the scholar has died.

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